Convenience translation into English of Cellcom Israel Ltd.'s Annual Report for the year ending on December 31 2021 filed with the Israeli Securities Authority, on March 10 2022

Cellcom Israel Ltd.

Periodic Report for 2021

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Chapter A – Description of the Company's Business

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

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

1.1. General

Cellcom is an Israeli telecommunications group that provides a wide range of telecommunication services in Israel in two areas, mobile communication and fixed-line communication. The Group is Israel's largest provider of cellular services and is the second largest communications group in Israel in terms of revenue, with a significant presence both in the private and business sectors.

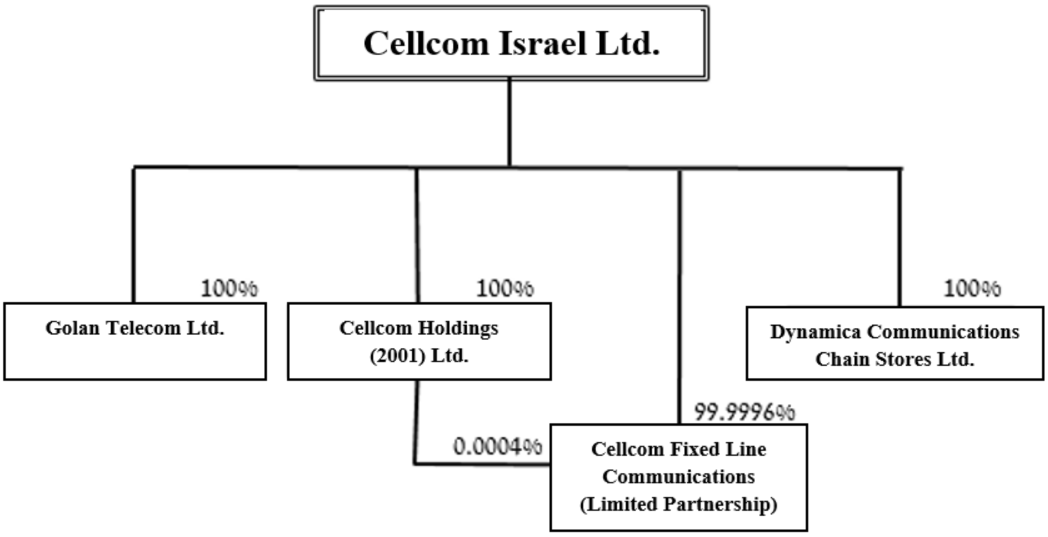
In its twenty-six years of operations Cellcom led significant revolutions in the Israeli communications market, starting from breaking Bezeq's monopoly in the cellular market, through establishing a business transmission network, and presenting a world class innovative solution for internet-based television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

On February 8, 2021, the Company's shares were voluntarily delisted from the New York Stock Exchange, and on February 9, 2022, after the Report period, the Company applied to the United States Securities and Exchange Commission ("**SEC**") for deregistration of the Company's shares in the US and ending its reporting obligations towards the SEC, once the necessary conditions have been fulfilled.[1] From the date of delisting its shares from NYSE, the Company transitioned to a reporting format under the provisions of Chapter F to the Securities Law 5728-1968 (the "**Securities Law**"), which apply to corporations reporting in Israel, while up to such date the Company had been filing reports in Israel under the provisions of Chapter E3 of the law, which apply to dual listed companies. Nevertheless, as the Company's shares continued to be registered according to the US securities provisions, the Company continued submitting reports to the SEC under the provisions of the US securities law. On February 9, 2022, upon submission of the necessary documents to the SEC, the Company's reporting obligations to the SEC were suspended. Deregistration and ending the reporting obligations is expected to conclude within 90 days of February 9, 2022, provided the SEC does not object. Once the Company's reporting obligations to the SEC are cancelled, the Company shall continue publishing in English on the Company's website (http://investors.cellcom.co.il) the reports published on the website of the Israel Securities Authority (MAGNA), so long as certain conditions persist, however it shall not be required to comply with reporting obligations pursuant to US law.

[1] For conditions see Section 1.4 in Chapter B of the Company's annual report for 2020 ("**2020 Report**")

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

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



(1) Dynamica sells cellular handsets, and a wide variety of electronic products and appliances through a chain of physical stores and internet websites, and also distributes such products to commercial entities. Dynamica also provides warranty and repair services for cellular equipment and it markets the Group's telecommunications services.

(2) Golan provides cellular services through a MVNO license, as well as an international operators service through a fully owned subsidiary.

(3) The chart does not include the Group's holdings in IBC and the IBC partnership. For details about the Group's holdings in IBC, see Section 17.1 below.

(4) The chart does not include the Group's holdings in C.M.G. Network Limited Partnership - the joint corporation through which Cellcom shares the radio network with Marathon.

1.3. **<u>Structural changes, mergers and material acquisitions</u>**

1.3.1. <u>Hot transaction</u>

On February 11, 2021, the investment transaction of Hot group in IBC was completed, pursuant to which Hot became an equal partner in the IBC partnership (previously held in equal parts by the Company and IIF), with the purpose of significantly increasing coverage of IBC's fiber-optic infrastructure. In addition, Hot executed an agreement whereby Hot is acquiring the right to use IBC's existing and future fiber-optic infrastructure, and IBC undertook to continue purchasing certain services from Hot and the Group. For additional details see Section 17.2 below.

2. Areas of activity

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

2.1. Mobile communications

In the framework of mobile communications, the Group provides cellular communication services in Israel and related services to its customers, as well as hosting services to other local operators under licenses granted by the Ministry of Communications, on an independent nationwide cellular network (including through network sharing). Similarly, the Group provides its customers with international roaming services and cellular communication services to customers of foreign operators that visit Israel. As of the date of the Financial Statements, the Group provided cellular services to approximately 3.2 million subscribers,[2] on a number of countrywide networks,[3] which include calls, sending and receiving messages (SMS, MMS), and internet browsing and data transfer.[4] In this field, the Group provides its customers with related services and value-added services such as roaming services, data security services, and IOT services. In addition, the Group offers its customers equipment and repair services for equipment. Moreover, the Group provides construction, operation, and maintenance services to the radio network that it shares with Marathon. For additional details about the field of activity see Section 7 below.

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[2] See definition in Section 4.4 of the board of directors' report.
[3] Except for the 5G network that is in the process of being deployed in selected regions.
[4] It is clarified that not all networks and not all handsets support all the technologies and all the services provided by the Group. Similarly, there are services that are tailored to the business customers.

2.2. **Fixed-line communications**

In the area of fixed-line communications, the Group provides internet services (connectivity and infrastructure), Internet TV services (Cellcom TV), international phone services, fixed-line phone services (domestic operator), and transmission services for business customers and communication operators. The Group also offers its customers pricing plans for these services (for example: The Fiber TV plan). The communication services are provided under the licenses granted by the Ministry of Communications (except for the internet television services that do not require a license). Similarly, the Group provides additional services such as: Conferencing services, hosting services and servers and websites, information security services, backup services, IOT solutions and solutions on the customer's premises on the basis of products from globally leading manufacturers. Some of the services are cloud services. Similarly, the Group offers fixed-line equipment (such as computer equipment etc.). For additional details about the area of activity see Section 8 below.

In the area of fixed-line communications the Company operates through an independent fiber-optic network, primarily deployed between industrial areas and business complexes, for providing transmission and domestic operator services to the business customers and through using Bezeq and Hot infrastructure in the framework of the Wholesale Market and IBC infrastructure for providing services to private customers. In recent years, the Company reduced its dependency on Bezeq and Hot's infrastructure by increasing use of IBC's fiber-optic infrastructure.

3. **Investments in the Company's equity and transactions in its shares during the years 2020, 2021 and 2022 (until the date of publishing the Report)**

3.1. Share lending agreement - For details regarding the share lending agreement, see Regulation 21A in Chapter D of this Report.

3.2. Issue of shares and warrants to the public by the Group

3.2.1. On December 5, 2019, the Israeli public was offered 30,600,000 ordinary shares, 7,038,000 warrants (Series 3) and 6,426,000 warrants (Series 4).

The securities were offered to the public by a shelf offering report of the Company dated December 5, 2019, in the framework of which the public was offered up to 36,267,600 ordinary shares par value NIS 0.01 each, up to 8,341,548 warrants (Series 3) exercisable into ordinary shares, and up to 7,616,196 warrants (Series 4) exercisable into ordinary shares. For additional details see the Company's immediate report dated December 5, 2019.

3.2.2. In May 2020 the Israeli public was offered 220,000 warrants (Series 4) for a net immediate consideration of NIS 5 million. The securities were offered to the public by a shelf offering report of the Company dated May 11, 2020, in the framework of which the public was offered up to 2,711,950 warrants (Series 4) exercisable into ordinary shares of the Company. For additional details see the Company's immediate report dated May 12, 2020.

3.2.3. In 2020 warrants (Series 3 and 4) were exercised in a total amount of approx. NIS 139 million. For details see Note 22 of the Financial Statements.

3.2.4. Some of the interested parties and officers of the Company performed transactions in the Company's shares during the Report period, as reported by the Company in its current reports.

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

4.1. In 2020 and 2021, and until the date of publishing the Report, the Company did not distribute any dividends to its shareholders.

4.2. As of December 31, 2021, the Company has distributable profits (as defined in Section 302 of the Companies Law) in the amount of NIS 1,128 million.

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

Company's board of directors may, at its discretion, not distribute dividends or distribute dividends in scope different than the foregoing.

4.4. For details about the Company's undertakings towards lending entities and holders of the Company's debentures with respect to compliance with financial covenants and restrictions on distribution that could affect its ability to distribute dividends, see Section 18.4 below.

In addition, it should be noted that the Minister of Communications may cancel the Cellular License held by the Company before its expiration if one or more of the causes set forth in the license are fulfilled, including if the joint equity of the Company and its shareholders, who hold 10% or more thereof, falls below USD 200 million.

Part Two: Other Information

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

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

	Mobile communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Sales revenues from outside factors	2,769	1,331	-	4,100
Revenues from other activity areas	13	141	(154)	-
Total revenues	2,782	1,472	(154)	4,100
Costs not attributed to revenues of another activity area	2,506	1,385	-	-
Costs constituting revenues of another activity area	141	13	(154)	-
Total costs	2,647	1,398	(154)	3,891
Variable costs**	2,507	1,385		2,507
Fixed costs**	141	13	(154)	141
Total costs	2,647	1,398	(154)	3,891
Profit (loss) from operation	135	74	-	209
Adjusted EBITDA	684	449		1,133
Total assets	3,650	2,093	827	6,570
Total liabilities	660	332	3,657	4,649

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

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

	Mobile communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Sales revenues from outside factors	2,349	1,327	-	3,676
Revenues from other activity areas	15	153	(168)	-

	Mobile communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Total revenues	2,364	1,480	(168)	3,676
Costs not attributed to revenues of another activity area	(2,252)	(1,447)	-	(3,699)
Costs constituting revenues of another activity area	(153)	(15)	168	-
Total costs	(2,405)	(1,462)	168	(3,699)
Variable costs**	(1,292)	(643)	-	-
Fixed costs**	(1,113)	(819)	-	-
Total costs	(2,405)	(1,462)	168	(3,699)
Profit (loss) from operation	(41)	18	-	(23)
Adjusted EBITDA	525	393	-	918
Total assets	3,728	2,123	1,306	7,157
Total liabilities	624	364	4,289	5,277

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

5.3. Hereunder financial information with respect to the Company, according to area of activity for the year ended December 31, 2019 (NIS millions):

	Mobile communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Sales revenues from outside factors	2,326	1,382	-	3,708
Revenues from other activity areas	14	147	(161)	-
Total revenues	2,340	1,529	(161)	3,708
Costs not attributed to revenues of another activity area	(2,145)	(1,539)	-	(3,684)
Costs constituting revenues of another activity area	(147)	(14)	161	-
Total costs	(2,292)	(1,553)	161	(3,684)
Variable costs**	(1,123)	(746)		
Fixed costs**	(1,169)	(807)		
Total costs	(2,292)	(1,553)	161	(3,684)

	Mobile communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Profit (loss) from operation	48	(24)	-	24
Adjusted EBITDA	627	313	-	940
Total assets	3,228	2,157	1,777	7,162
Total liabilities	421	399	4,455	5,275

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

For the board of directors' explanations regarding the Company's financial information appearing in the Financial Statements, see the board of directors' report attached in Chapter B to this Report.

6. <u>General environment and the effect of external factors on the Group's activity</u>

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

6.1. <u>Regulation and dependency on licenses</u>

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

A substantive part of the Group's activity is subject, *inter alia*, to the provisions of the Telegraph Ordinance, the Communications Law and the regulations promogulated thereunder, and of the licenses granted to the Group by the Minister of Communications.

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

The Company's activity is also subject to additional laws, such as: Planning and building laws (in connection with the construction of cell sites and other installations), the Radiation Law, competition law, securities law, consumer law, privacy protection law, labor law, and the regulatory decisions that apply to each of these and other areas. For additional details about restrictions and oversight of the Group's activity, including the licenses granted to the Group, see Section 21 below.

6.2. Competition

The Group is active in a highly competitive market in all areas of its operations. For additional details see Section 11 below.

6.3. Technological changes and technological dependency

The communications area is a highly dynamic and competitive field, which is characterized by a fast pace of technological changes, which require appropriate preparation and capital-intensive investments in telecommunications infrastructure, in order to meet the changing needs of consumers and to retain the competitive position of the players active therein. Accordingly, the Group is required to invest in advanced technologies in order to remain competitive. For additional details see Section 26.2.7 below. In addition, the activity in the area of communications establishes a dependency of the parties active therein on the communications infrastructure, and on data systems and complex technological systems, while the lack of an independent infrastructure means being dependent on the various infrastructure providers. Malfunctions in such technologies may adversely affect the Group's ability to provide services and products to the customers, adversely affect the Group's goodwill, and expose it to claims. For details regarding the technological changes and the technological systems in the area of mobile communications and in the area of fixed-line communications, see Sections 7.1(2) and 8.1(1) below.

For additional details about the Group's investment and the Group's dependency on infrastructure and the networks, see Sections 12.2 and 26.3.2 below.

6.4. Environmental risks

For details regarding the possible effect of environmental risks on the Group's activity, see Section 20 below.

6.5. Covid-19 pandemic

For details regarding the effect of Covid-19 on the Group's activity, see Section 1.4 of the board report attached in Chapter B to this Report.

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

7. Mobile communications

In addition to that set forth in Section 2.1 above, below is a description of trends, events, and developments in the macro-economic environment of the Group that have or may have an effect on the area of mobile communications:

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

The area of activity includes cellular communication services[5] and related services, as well as merchandise and repairs for cellular equipment, as set forth in Section 7.2 below. The cellular telecommunication services are provided by MNO - the owners of the infrastructure, and MVNO who are hosted on the MNO infrastructure.

In August 2020, the Group completed the acquisition of Golan and strengthened its position as a market leader. For additional details see Note 7 to the Financial Statements.

The cellular telecommunications market is characterized by fierce competition, which leads to frequent and extensive transfers of subscribers between the various cellular operators. Such churn leads to erosion of service package prices, concurrently with increasing the volume of services included in these packages, thus leading to erosion of the Group's average revenue per cellular subscriber and harming the Group's profitability. In 2021 there was a decrease in transfer of subscribers between the different cellular operators, which did not reduce the sharp competition existing in this area.

Similarly, the end equipment market is also characterized by intense competition between the various providers (cellular operators, importers, many additional shops, international e-commerce platforms, etc.), which sell end equipment, including through parallel imports. The variety of

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[5] The term "cellular telecommunication" is essentially identical to the term "mobile telecommunication".

marketing channels in which the Group is active (including the digital platform and its development in the Group), *inter alia* harmed the gross profitability deriving from the sale of equipment in the Group. This trend increased in 2020 in light of the Covid-19 pandemic (which led to the closure of Group service centers and shops and brought a shift to selling via digital channels, which is characterized by lower profitability). In 2021, in light of measures taken by the Company to focus and expand its activity in the area, the Company succeeded in improving the gross profitability rate compared to 2020 alongside increasing the activity turnover despite problems in supply of end-user equipment due to a global shortage of microprocessors, a trend that worsened in Q4 2021. For additional details see Section 1.4 of the board report.

(1) <u>The developments in the markets of the area of activity, or changes in the characteristics of its customers</u>

The cellular telecommunications market is characterized by low growth rates, due to a saturated penetration rate[6] and due to large mobility rates between the various operators. In recent years cellular telecommunications became a central means of day-to-day conduct of private customers and businesses. The users are expanding the usage methods and transferred from using the communication services mainly for the purpose of phone calls, to an expanding use of the communication services, especially the cellular surfing services, use of applications, and use of connected equipment (IOT). The Company believes that this trend shall continue and get stronger, mainly with the entry of 5G.

(2) <u>Technological changes that could affect the area of activity</u>

The cellular communications market is characterized by frequent and significant technological changes, for which the cellular operators are required to continuously invest in development and adjustments to

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

advanced technologies. Thus, even continuous growth in the scope of cellular data traffic, which in recent years has been occurring on the cellular and fixed-line communication networks, dictates the necessity of upgrading the networks as foregoing, and it requires the purchase of ever-increasing capacity for providing the connectivity service to the internet and the Group's infrastructure. In the Group's estimate, such growth in data traffic shall *inter alia* continue due to the development of content and television services in high resolutions, which rely on internet communication.

In order to respond to the increasing demand for cellular data traffic, the Group is *inter alia* required to continue its investments to upgrade and expand deployment of the 4G network and adjusting it to new frequencies allocated in the 2020 frequencies tender, as well as deployment of the 5G Network, in order to allow for larger capacity and faster data transfer capabilities.

For additional details about the Group's rights to use the frequencies, the Company winning the 2020 frequencies tender, and the requirement of the Ministry of Communications to replace frequencies, see Section 13.5 below.

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

(3) <u>The critical success factors in the area of activity and the changes applicable thereto</u>

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

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

- The ability to offer competitive prices;
- Extensive and varied distribution channels;
- The ability to deal with the effects of regulatory decisions;
- Quality, fair, and efficient customer service, including the ability to offer technical support and customer service through a variety of physical, telephonic and digital channels;
- A well-known and leading brand;
- Managing a wide range of communication services for homes and businesses under one roof, and the ability to provide the customers with a comprehensive response;
- Digital transformation;
- Professional and skilled manpower.

(4) Main entry and exit barriers

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

- The need to obtain a general license from the Ministry of Communications for providing cellular telecommunication services, while complying with the conditions set forth in the Communication Law and obtaining a right from the state to use the appropriate frequencies, which involves high financial costs;
- The need for financial means in large scopes and vast knowledge for purpose of making the significant investments that are required in the technological infrastructure, the establishment of a network and a countrywide deployment of sites, an operating system, sales system, and broad support and service;
- The intense competition in the cellular telecommunications market in Israel and the saturation of the industry's penetration rate. For additional details see Section 11.3 below;

- Burdensome regulation and oversight in the area of mobile communications, compliance with which and with the changes made thereto may require substantial investments. For additional details see Section 21.4 below;
- The need for constructing cell sites (which are also known as cellular antennas) with countrywide deployment, which involves many difficulties due to the difficulty in renting space for constructing cell sites and the licensing of the sites, which frequently encounters opposition from the local authorities and in whose territory the site is established and from their inhabitants. For additional details see Section 21.4 below.

It is noted that most of the barriers to entry described above with respect to the establishment of the infrastructure and using the frequencies do not constitute an entry barrier for virtual operators.

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

- The Minister of Communications' approval for ceasing the provision of the service, which may be contingent upon an arrangement for continued provision of the service that is provided to the customers by the operator asking to exit the area;
- The Cellular License sets forth restrictions, *inter alia* on transferring shares from corporations that hold such license and on transferring or charging assets that are used by the Group for fulfilling the terms of the license;
- Material investments that require a long time for a return on investment.

7.2. **<u>Products and services</u>**

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

As of the Report publication date, the Group is providing cellular communication services to approximately 3.2 million subscribers in Israel, who constitute an estimated market share of approximately 31% of the cellular telecommunications market.

The Group offers its subscribers a wide range of services in this area of activity, including:[7]

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

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

(c) Surfing and data communication services - internet surfing services;

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

(e) Value-added services, such as: Cyberattack protection, anti-virus and anti-spam services, backup services, "music-on-hold" services, workforce management applications, fleet management, etc.;

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

(g) Repair services for equipment - in consideration for monthly payment that entitles the customer to repair services, or in consideration for a non-recurring payment upon the repair.

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

The Group offers two payment methods: Advance payment (prepaid) and retroactive payment (post-paid). In the framework of the retroactive payment, the subscriber provides a payment method of a bank account debit order or a credit card charge. Services for advance payment are usually paid

[7] See footnote 3 above.

by purchasing physical or virtual "Talkman" cards. Most of the Group's sales in this area are made by way of retroactive payment. According to the industry regulation, the cellular service packages do not include an undertaking to purchase the Group's services for a predefined period, except in connection with agreements with large business entities. For additional details about restrictions and oversight in the area of mobile telecommunications, see Section 21.4 below.

According to the network sharing agreement with Marathon, the Group provides Marathon with domestic roaming services and subcontractor services to the Joint Corporation (as defined in Section 23.1A below). For additional details about such sharing agreement, see Section 23.1 below.

Equipment

Cellcom makes sales on a wide range of sale channels, including in physical shops (including the Dynamica chain that constitutes the Group's retail arm) and on the website, a wide range of cellular phones, accessories, and additional electronic equipment, such as tablets, laptops, gaming consoles, loudspeakers, earphones and smart watches. The Group offers a variety of payment plans for such equipment. The consideration is paid in one payment or in a number of payments, according to the customer's choice. The vast majority of the Group's cellular phone sales in 2020 and 2021 were from the Samsung and Apple brands (for additional details regarding the Group's agreements with Samsung and Apple, see Section 15 below). The cellular handset models sold by the Company support the Hebrew, English, Russian and Arabic languages (in most models).

7.3. **Breakdown of revenues from products and services**

Below is the data about customer revenue in the field of mobile telecommunications, the rate of which constitutes 10% or more of the Company's total revenue (as presented in the Company's consolidated financial statements) for 2019, 2020, and 2021 (in NIS millions):

	2021		2020		2019	
	Revenues	**Rate** (*)	**Revenues**	**Rate** (*)	**Revenues**	**Rate** (*)
Cellular communication services (**)	1,775	43.3%	1,558	42.4%	1,595	43.2%
Equipment	915	22.3%	704	19.2%	655	17.8%

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

(**) Including revenue from Marathon and Golan (Golan for the years 2019-2020) for the sharing agreements. For details see Section 23.1 below.

8. <u>Fixed-line communications</u>

In addition to that set forth in Section 5.1.1 above, below is a description of trends, events, and developments in the macro-economic environment of the Group that have or may have an effect on the area of fixed-line communications:

8.1. <u>Structure of the area of activity, changes in the scope of activity, developments in the markets of the area, and changes in the characteristics of its customers</u>

The area of activity includes a variety of fixed-line communication services, including internet services (connectivity and infrastructure), OTT television services, international operator services, fixed-line telephone services, transmission services that are offered to the Group's business customers and various communication operators and communication solutions, such as IOT solutions. For details see Section 8.2 below.

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

The Group's investment in IBC and the completion of the investment with the Hot group, shall allow IBC to significantly increase the deployment of its fiber-optic infrastructure and thus decrease the Group's dependence on the other fixed-line infrastructure owners. For additional details see Section 17.1 below.

Internet

This market includes internet connectivity services and internet infrastructure. For details see Section 8.2A below.

In recent years, the internet market recorded an increased use and scope of data movement transferred on the communication networks, alongside a drop in prices per given volume of traffic.

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

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

For additional details about IBC's investment and the IRU agreement for the Group's use of IBC's network, see Section 17.1 below.

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

Partner also has fiber-optic based infrastructure in selected areas.

Bezeq group has its own fiber-optic network, anticipated, according to duties set forth in its license, to reach deployment at 82% of households in Israel by 2027. Bezeq has begun operating its fiber-optic network (which it previously deployed) in March 2021.

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

The Wholesale Market allowed the internet connectivity providers who do not have internet infrastructure or internet connectivity providers that have internet infrastructure that is not country-wide, including the Group (among others through IBC), to compete with the Bezeq and Hot groups and to provide service plans that include internet connectivity and internet infrastructure.

In 2015 the Israeli Wholesale Market in the area of internet infrastructure services was officially launched, and to a certain extent also in the area of certain physical infrastructure being used by operators that do not own infrastructure. Even though the Wholesale Market also formally applies with respect to the infrastructure of the Hot group, implementation of the wholesale services on the Hot network was delayed for various reasons, *inter alia* due to tariffs that are higher than the wholesale tariffs of the Bezeq network. Until the Report publication date, the usage of the wholesale services on the Hot network was extremely limited.

For details regarding additional developments in the Wholesale Market, see Section 21.5(2) below.

For additional details pertaining to the prices of the wholesale internet infrastructure on the Bezeq network, see Section 21.5(2) below. For details regarding wholesale fixed-line telephony, see in this section below under the title “fixed-line telephony”.

Television services

Until the Group’s entry into the multi-channel television market in December 2014, the multi-channel television market was controlled by Hot (a declared monopoly in this field) and Yes, which provided television services mainly through cable and satellite technologies, respectively. Cellcom for the first time in Israel presented an innovative streaming television broadcasting method (OTT) which was a significant milestone in developing the audiovisual market for consuming programs on the internet. The Group’s OTT service presented innovation in additional parameters, including the option to simultaneously view content on a number of mobile and stationary handsets, continue viewing content across devices, concentrated recording that enables viewing content that was broadcast on the commercial channels a week back, and more, alongside a variety of Israeli and international content and sport content. Since the Group presented the OTT service in Israel, additional players adopted the solution. In recent years content is also offered by parties that are not television services providers, such as Netflix, which markets its services directly to consumers and through cooperation with television services providers. This phenomenon is expected to expand upon Disney’s entrance into Israel.

Fixed-line telephone (domestic operator)

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

The Wholesale Market was supposed to include fixed-line wholesale telephony starting from May 2015. Bezeq avoided providing the wholesale telephony service, and only in June 2020 did it claim to be prepared to provide the service. To the best of the Group’s knowledge, as of the Report date, the service has yet to be used in the framework of the Wholesale Market. The lack of an effective Wholesale Market of wholesale telephony services harmed the Company’s ability to offer this service to its customers.

For additional details about the Wholesale Market, see Section 21.5(2) below.

International calls (international operators)

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

For additional details about the structure of the area of activity in all such markets and the competition therein, see Section 11.4 below.

(1) Technological changes that could affect the area of activity

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

In recent years there has been major growth in fixed-line data traffic, which requires the Group to upgrade its networks and to purchase larger capacities for the internet services (connectivity and infrastructure) that it offers. Transferring to new technologies and using new equipment involves risks and administrative attention.

In order to meet increasing demand for fixed-line network data traffic, and to find more lucrative alternatives for purchasing capacity from Bezeq and Hot, the Group invested many resources in deploying independent infrastructure and thereafter in IBC.

For details about technological changes and dependency on technology as a risk factor in the Group's activity, see Section 26.2.7 below.

(2) <u>The critical success factors in the area of activity and the changes applicable thereto</u>

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

- The ability to offer reliable telecommunication services at competitive prices, while adjusting to the frequent changes in the fixed-line communications market, with an emphasis on responding to the increasing need for bandwidth;
- Accessibility to a quality and advanced network with a broad deployment, including the ability to reduce dependency on external fixed-line infrastructure owners;
- The ability to deal with regulatory decisions;
- Quality and efficient customer service, including the ability to offer technical support and customer service through a variety of physical, telephonic and digital channels;
- The ability to offer a wide range of services for home and business;
- The ability to make substantive investments;
- Extensive and varied distribution channels;
- A well-known and leading brand;
- Accelerated digitalization;
- Professional and skilled manpower.

(3) <u>Main entry and exit barriers</u>

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

It is noted that in October 2020, in the framework of the Ministry of Communication’s efforts to reduce barriers to entry into the various communication fields, the Ministry of Communications decided to incentivize the deployment of bandwidth infrastructure through removing barriers for obtaining a license to deploy and provide broadband infrastructure services through a special license for providing broadband infrastructure services (in a fiber-optic or wireless configuration of microwave/extremely high frequency arteries). In this framework the threshold requirements to obtain a license were reduce and restrictions were set forth with respect to the scope of services to be provided under the license (restriction on the number of subscribers) and the period of time during which the license owner may use its license. In February 2022 the Ministry of Communications decided to allow such operator that has a license for broadband services to purchase services of using passive infrastructure from domestic operations according to the terms of the service file in this regard and this only in incentivized areas. For details regarding incentivized areas see Section 21.5(1).B. below.

It is noted that as of the Report date, the provision of internet television services does not require a license, but there is a need for financial means in large scopes, including the need to engage in agreements for purchasing content and technological infrastructure.

In the Group’s estimate, the main exit barrier from the area of activity, except in the matter of providing internet television services, is the Minister of Communications’ approval for ceasing the provision of the service, which may be contingent upon an arrangement for continued provision of the service that is provided to the customers of the operator asking to exit the field.

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

8.2. **<u>Products and services</u>**

The main services that the Group provides in this area include internet services (connectivity and infrastructure), internet television services (OTT), international phone services (international operators), fixed-line phone services, and transmission services for business customers and communication operators. Additional services include key services, communication systems management, information security services, and IOT services. Some of the services are provided on the cloud. The internet infrastructure services that the Group provides to its private customers are primarily based on the Wholesale Market and on IBC’s fiber-optic infrastructure, while these services for business customers are primarily based on the Group’s independent fixed-line infrastructure.

The Group offers packages of such services to its customers, such as the Fiber TV plan that includes internet (connectivity and infrastructure) and television services.

According to industry regulation, the service plans do not include an undertaking to purchase the Group’s services for a predefined period, except in connection with agreements with large business entities. For additional details about restrictions and oversight in the area of mobile and fixed-line telecommunications, see Sections 21.4 and 21.5 below.

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

For details about the effects of Covid-19 on demand for the Group’s products, see Section 1.4 in the board of director’s report attached to Chapter B of this Report.

a. <u>Internet (connectivity and infrastructure)</u>

The Group is a primary provider of internet connectivity services (ISP).

The infrastructure provider is responsible for connecting the customer from the home’s first outlet to the infrastructure. The internet connectivity services provider is responsible for providing the customer with an internet connection, from the infrastructure of the infrastructure provider, through its network, to the local and global internet network. Since May 2015, the Group has been providing end to end internet services to customers in residential areas through copper-wire infrastructure of the Bezeq group (on the basis of the Wholesale Market), and since 2017 until its sale to IBC, also through independent infrastructure, and after selling the independent infrastructure to IBC (in 2019) also through IBC's fiber-optic infrastructure. From July 2021, the Wholesale Market also includes Bezeq's fiber-optic infrastructure.

As foregoing, the Group offers the internet infrastructure services together with the internet connectivity services. For details regarding the Wholesale Market, see Section 21.5(2) below. The Group also provides end equipment required for its service and support.

In addition, the Group offers value added services to its internet subscribers, which include information security services, hosting, and backup of servers and websites (for business customers), and global communication solutions (for business customers).

b. Multi-channel OTT television services

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

c. International operator services

The Group is one of the main players in the international operators market in Israel. The main service in this market is outgoing and incoming telephone calls with global coverage of a significant and extensive scope. The Group provides this service mainly to customers who pay retroactively, but also to customers who pay in advance, mainly through selling calling cards. Most of the customers who pay in advance are foreign workers in Israel.

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

d. Fixed-line local telephone services

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

e. Transmission services

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

f. Internet of Things (IOT)

The IOT technology enables the connection between different devices to the internet. The Group, together with strategic partners, offers IOT solutions that are based on a variety of communication solutions which include fixed-line communication (Wi-Fi) and cellular communication, including “smart city” solutions.

g. Information system and communication solutions

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

8.3. Breakdown of the revenue from products and services

Below is the data about customer revenue in the area of fixed-line communications, the rate of which constitutes 10% or more of the Group’s total revenue (as presented in the Company’s consolidated financial statements) for 2019, 2020, and 2021 (in NIS millions):

	2021		**2020**		**2019**	
	Revenue	**Rate (*)**	**Revenue**	**Rate (*)**	**Revenue**	**Rate (*)**
Revenue from pricing plans (such as internet, television, and domestic operator) (**)	878	21.4%	826	22.5%	773	20.8%

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

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

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

9. Customers

Below is data about the Group's revenues distribution from private customers and business customers:[8]

Type of customer	2021		2020		2019	
	Total revenues (in NIS millions)	% of total revenues	Total revenues (in NIS millions)	% of total revenues	Total revenues (in NIS millions)	% of total revenues
Private customers	2,835	69.1%	2,556	69.5%	2,561	69.1%
Business customers	1,009	24.6%	940	25.6%	991	26.7%
Other	256	6.2%	180	4.9%	156	4.2%
Total	4,100	100%	3,676	100%	3,708	100%

The Group is not dependent on a specific customer the loss of whom would materially impact its activity or any of its areas of activity.

10. Marketing and distribution

10.1. Sale and customer service

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

The Group's customer service department is the central channel for maintaining long-term relationships with the Group's customers, while focusing efforts to cultivate customer loyalty through providing quality service. In addition, the Group allows its customers to comfortably join complementary services and additional communication services.

[8] Even though Marathon (and also Golan until its acquisition by the Company) is included in the consolidated financial statements in the customers section, and most of the revenue therefrom is presented on the revenue row in the Company's consolidated financial statements for the relevant period, we are not dealing with a customer, but rather with a business partner the Group's revenue from which are substantive. For additional details see Section 23.1 below and Note 31D to the Financial Statements.

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

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

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

In the framework of the streamlining processes that the Group is implementing, the Group closed, reduced, and consolidated points of sale and service in nearby locations, and it reduced or changed locations to call centers, while focusing efforts in self-service channels and in proactively identifying and solving problems, before receiving a complaint from the customer. The Company predicts that the streamlining processes and the reduction and closure of points of sale shall also continue in 2022.

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

a. <u>Physical points of sale</u>

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

   As of the Financial Statements date, the Group independently operated approximately 70 countrywide service and sale points. According to most, the service and sale points are located in central locations or in locations with high customer traffic, which allow for easy and comfortable access to the Group's customers and potential customers.

Most service and sale points and Dynamica shops offer the entire range of the Group’s products and services, and they offer a repair service for mobile handsets (and in some of them also additional equipment) or serve as delivery points for depositing them for repair and receiving them after the repair (in the same center or through delivery to the customer’s home), while the repair service itself is performed at the Group's physical points of sale or at a central laboratory.

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

b. Call centers

The call centers operated by the Group focus on providing customer service, in financial matters services, international pricing plans, technical support in cellular, fixed-line, and television, and telephone sale efforts to current and potential customers. The Group’s sales representatives offer the Group’s customers a wide range of products and services, both proactively and in response to their requests. The Group’s call center service is divided into sub-centers (for example: general services; technical services; charges; sales; etc.). The Group is continuously examining the efficiency of the service, and it also operates a multi-purpose call center that provides all the services. As of the publication date of this Report, the Group is operating 11 call centers that provide service to private customers, and six of them are outsourced. During peak hours, the Group’s call centers have the capability to provide service to approximately 1,000 customers at the same time.

c. Business customers

A designated sales team maintains regular contact with the Group’s large and medium business customers. In addition, the Group provides a telephone support and sale system to small and medium business customers, a service center for large business customers, and a support center for fixed-line communication customers. The Group's expertise in the various communication areas allows it to fully treat the needs of the business customers, including personally adjusted solutions, when needed. It is noted that the process of selling to large business customers and to government and local authorities sometime involves the Group's participation in a tender process.

d. Independent service and online sales

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

e. Service through technicians

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

f. Providing service to people with disabilities

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

10.2. Marketing

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

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

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

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

11. Competition

The Israeli telecommunications market is an extremely competitive market in many of its areas. The level of competition significantly increased in recent years following the entry of additional competitors and regulatory changes that reduced the barriers to entry into the field, and the barriers for customers transferring between the companies active therein. As a result, the prices for the various services provided by the Group (and its competitors) were significantly eroded and caused a decrease in the Group's revenue the operating results in recent years.

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

11.1. Telecommunication groups and structural separation

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

Since the Bezeq and Hot groups are monopolies in each of their core businesses - the Bezeq group in the fixed-line telephony market and in the internet infrastructure market, and the Hot group in the multi-channel television market – an obligation of certain structural separation is imposed on them, and accordingly various restrictions apply to them in connection with the sale of pricing plans. The restrictions applicable to the Bezeq group, *inter alia*, include a requirement that Bezeq separately offer some of the services included in the service plans, at the same terms as in the plan, which would allow its competitors to offer their services in the framework of service plans at identical terms (if the pricing plans include internet connectivity services, fixed-line internet based calls, or international calls) and as of the Report date, it is also mandatory to market them as it markets its pricing plans (the second requirement does not apply to the sale of the plan by a subsidiary of Bezeq and is expected to be terminated in April 2022 also regarding Bezeq itself, as part of the Ministry of Communications' decision regarding the cancellation of the existing separation between connectivity and infrastructure, as detailed below). With respect to the Hot group, a similar restriction applies in connection with the internet connectivity component in the pricing plans that include internet connectivity services, which is expected to be canceled during May 2022, as part of the said Ministry of Communications' decision, as detailed below.

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

In 2018, Bezeq partially merged the activity of its subsidiaries (Pelephone, Yes, and Bezeq International Ltd.) and thus strengthened its ability to compete with the fixed-line plan offered by the Group. In February 2019, Bezeq filed a petition with the High Court of Justice against the Ministry of Communications, for the immediate termination of the structural separation obligation in the Bezeq group. The state's position with respect to the petition is that Bezeq's petition should be dismissed, *inter alia* in light of recommendations of the inter-departmental team for examining an update to the structural separation obligations in the Bezeq and Hot groups, which were submitted to the Minister of Communications, whereby at this time there is no room to terminate the structural separation in the Bezeq and Hot groups, and that the matter should be further examined according to changes in the market. In February 2021 Bezeq withdrew its petition upon the High Court of Justice's recommendation.

In April 2019, the Ministry of Communications decided to grant the Hot group additional relief regarding the structural separation, which allows it to market the services of Hot and its subsidiaries to medium and large business customers with no restrictions. Similarly, in July 2020, Hot was permitted to start marketing certain joint service baskets for the private segment, which also include the Hot-Net connectivity provider services, under certain circumstances.

In February 2021, the Ministry of Communications decided to allow the Hot group to market a "joint services basket" that would in addition to the home internet and broadcasts also include the cellular (quattro) and international operator. According to the decision, Hot would be required to obtain the

Ministry of Communication's advance approval for each services basket, and with respect to the services basket to be offered by some of the companies from the Hot group, it would be required to also offer services of competitors that are not from the Hot group.

In June 2021, the Ministry of Communications decided to terminate the policy and separation existing between the broadband infrastructure service and the internet connectivity service, which requires a customer interested in connecting to the internet to purchase these two complementary services. Private sector only. In was thus decided that Bezeq and Hot may themselves provide internet connectivity services together with infrastructure services, after the completion of a process in the framework of which a shelf offer would be made, which would be agreed with the service providers, which include service metrics for the Wholesale Market and liquidated damages for non-fulfillment thereof that shall be approved by the Ministry of Communications, a calibration phase that would continue for 3 months, during which the shelf offer would be implemented without the liquidated damages part and amendments would be made as necessary, and an evaluations phase which would continue for 3 months, during which the shelf offer including the liquidated damages would be implemented. At the end of the evaluations period, expected to end in April 2022 with respect to Bezeq and in May 2022 with respect to Hot, they shall be permitted to provide internet connectivity services only together with the infrastructure services, and shall be prohibited from providing separate infrastructure services to new private customers. As part of the process, in January 2022 the Ministry of Communications published a hearing about amending the licenses of Bezeq and Hot, to also include the option of marketing internet connectivity services.

In the Company's estimates, since it owns internet infrastructure (through IBC), the aforementioned change regarding provision of internet connectivity services together with infrastructure services by Hot and Bezeq, is not expected to have a material impact on the Group's results. The Company's estimates in this regard are deemed forward-looking information as such term is defined in the Securities Law. The Company's

estimates may not materialize or materialize in a way other than estimated, inter alia, in light of the rate of recruiting new customers and churn rate of internet customers without infrastructure.

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

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

In order to cope with increased competition in the telecommunications market, the Group implemented a few measures and strategies that *inter alia* include: (1) Executing opportunities that maximize its advantages as a telecommunications group, and whilst doing so launch internet based television services, internet infrastructure services on a Wholesale Market basis, and investments in fiber-optic infrastructure through IBC, and in IOT; (2) focusing on offering service plans such as the triple or Fiber TV plans, which strengthen customer retention and increase the scope of its purchase from the Group; (3) engaging in network and hosting sharing agreements with Golan and Marathon, which allow for a more efficient cost structure for networks, their operation and investments therein, and later on the acquisition of Golan and strengthening the Group's status as Israel's largest cellular operator while reenforcing the Group's financial results; (4) investing in IBC, selling the Group's independent fiber-optic infrastructure in residential areas to IBC, and engaging in an IRU agreement with IBC, which reduced the Group's costs in 2019 and 2021 and its dependency on Bezeq, and engaging with Hot in investment agreements in IBC with the purpose of significantly expanding the deployment of IBC's fiber, and to at an accelerated pace turn IBC into an extensive alternative for Bezeq; (5)

investing in the Group's networks with the purpose of guaranteeing quality and advance cellular and fixed-line services, including 5G; (6) implementing aggressive streamlining measures through changes to manpower strength, reducing overhead expenses and streamlining labor processes; (7) increasing the service and sale activity in the digital channels, to increase the customers' satisfaction and saving on overhead expenses, and (8) expanding the product range and developing tangent areas of activity.

In the Group's estimate, among the negative factors that affect or may affect its competitive standing, are the following factors: (1) The Group's high debt rate which decreases the free capital available for financing and developing its business, and which decreases the flexibility of its response to changes in the market and economy, and it imposes heavy financial costs on them; (2) insofar as regulation shall apply that would burden the OTT services offered by the Group to its customers; (3) termination and/or granting additional reliefs in the structural separation obligation of Bezeq and/or Hot; (4) providing fiber-optic based internet infrastructure services by Hot and/or Bezeq; (5) the inability to turn IBC into the owner of extensive fiber-optic infrastructure form which the Group would be able to purchase services, or an adverse change to IBC's competitive abilities; (6) an inability to make the required investments in the Group's networks and in its business in general; (7) malfunctions and/or cyber-attacks that would harm the provision of telecommunication services by the Group and its image; (8) the provision of telecommunication services by the State of Israel or granting entities the option to provide telecommunication services to themselves; (9) allocating frequencies to entities that are not cellular companies, in favor of providing local cellular services; (10) short and medium-term implications on the Group from terminating or changing the sharing agreement with Marathon; (11) changing the manner of regulating kosher lines; and (12) reducing barriers to entry in the communications market and reducing regulation on technology and business development (for details see Section 21.1(1) below).

The Company's estimates regarding the negative factors that could affect its competitive position is deemed forward-looking information as such term is defined in the Securities Law, which are based on the Company's current information as of the Report date, and include estimates and analyses of the Company according to its experience in the telecommunications market. These estimates could not materialize or could partially materialize, being subject to factors outside the Group's control, including the materialization of all or some of the risks set forth in the framework of the risk factors in the Group's area of activity, as set forth in Section 26 below.

11.3. Competition in the mobile telecommunications market

There is intense competition in all aspects of the Israeli cellular telecommunications market, with penetration rates of approximately 116% which represent 10.7 million cellular users as of December 31, 2021, and an average churn rate of approximately 27% in 2021, a slightly higher churn rate compared to the churn rates in other developed countries. The Group's churn rates in 2020 and 2021 stood at 40.2% and 31.0%, respectively.

As of the Report date, the Group is active alongside ten additional cellular telecommunication operators: Four mobile network operators that own infrastructure (MNO): Partner, Pelephone, Hot Mobile, and Marathon, six virtual operators (MVNO) including: Rami Levy Hashikma Marketing Communication Ltd. ("**Rami Levy**"), Azi Communications Ltd., Free Telecom Ltd., and Cellact Communications Ltd.

The fierce competition in the cellular market increased even further after Marathon entered the market in April 2018.

In the Group's estimate, the subscriber market shares of the various cellular operators, as of December 31, 2021, are: The Group approximately 31%, Partner approximately 28%, Pelephone approximately 24%, Hot Mobile approximately 13%, Marathon approximately 2%, and the virtual operators together approximately 2%.[9]

Competition may remain at current levels. Nevertheless, it should be noted that following the 5G tender, the cellular operators published offers for 5G pricing plans that include expansive data plans at higher price levels than the prices of pricing plans that do not include 5G services and there was a decline in the number of transfers in the market, which still did not decrease the fierce competition in this area.

In the equipment market the Group is competing with many providers, networks, importers, and international online trading platforms. The Group predicts that this competitive trend shall continue (for example in 2021 a new retail chain began operating under joint ownership of Hot and Fox) and shall include more international players and may exacerbate even more. The Company cannot estimate its market share in the equipment market.

The Company's estimates regarding the continued competition in the mobile communications market and equipment market as foregoing is deemed forward-looking information as such term is defined in the Securities Law, which are based on the Company's current information as of the Report date, and include estimates and analyses of the Company according to its experience in the telecommunications market. These estimates could not materialize or could partially materialize, being subject to factors outside the Company's control, including the materialization of all or some of the risks set forth in the framework of the risk factors in the Group's area of activity, as set forth in Section 26 below.

11.4. <u>Competition in the fixed-line telecommunications market</u>

The activity in the area of fixed-line communications includes activity in a few sub-areas, mainly infrastructure and internet connectivity services, local and international telephony services, and television services. Wholesale Market implementation allowed for the entry of additional operators that do not own infrastructure into addition sub-areas and led to an expansion of

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

competition in all activities and to increased offerings of service plans from a few areas to the customer.

a. Internet services (connectivity and infrastructure)

The Hot group and Bezeq are the only entities in the State of Israel that own countrywide (or almost countrywide) fixed-line infrastructure. These groups are the main internet infrastructure providers for the private sector in Israel, and they also provide internet infrastructure services to operators that do not own infrastructure in the framework of the Wholesale Market. As of September 30, 2021, Bezeq has been providing internet infrastructure services (copper-wire and fiber-optics) to approximately 1,014,000 households and has deployed fiber-optic infrastructure to approximately one million households and Hot provides internet infrastructure services (cable-based) to approximately 711,000 households.[10]

IBC offers wholesale internet infrastructure services over fiber-optics to operators that do not have fiber-optic or other infrastructure, including to the Group and to Hot. As of December 30, 2021, IBC has deployed fiber-optic infrastructure to approximately 735,000 households.

Similarly, Partner offers internet infrastructure services to the private sector on an independent fiber-optic network deployed in selected residential areas.

Internet connectivity providers that do not own internet infrastructure,[11] such as the Group with respect to its private customers, rely on the internet infrastructure of Bezeq, Hot and IBC (for additional details see Section 17.1 below) for the purpose of providing infrastructure services to their customers. Should IBC become an alternative with countrywide deployment, this is expected to positively affect the Group's

[10] The data with respect to the number of households to which Hot provides internet infrastructure services is based on the Group's estimates.

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

competitive position in the area of fixed-line communications, by reducing the Group’s dependency on Bezeq and reducing its costs.

For several years the wholesale capacity purchased by the Group from Bezeq has grown from year to year. In 2021 the Group focused on recruiting internet customers on fiber-optic infrastructure (mostly of IBC but also Bezeq) which led to a decrease in the wholesale capacity the Group purchased from Bezeq. In November 2021, the Ministry of Communications published the demand indices for data capacity on Bezeq’s network, which are used to determine the Wholesale Market tariffs over copper-wire infrastructure. These indices led to an increase in Wholesale Market tariffs over copper-wire infrastructure.

In addition, internet connectivity providers are required to purchase capacity for the service from Bezeq and Hot. The perpetual usage increase has led to an increase in demand for greater bandwidth, which required the Group to increase the capacity purchased by it from Bezeq and Hot, at prices that remained high.

The offering of internet infrastructure services based on the fiber-optics by Bezeq and Hot increases competition in the field, but also increases the public’s awareness of the service and leads to a deviation of sales to fiber-optic infrastructure. Bezeq started marketing its fiber-optic services to customers in March 2021 and from July 2021 such service is also sold on the Wholesale Market. Hot began marketing the services (on IBC infrastructure) in April 2021. For details about Hot’s investment transaction in IBC that has not yet been approved, see Section 17.2 below.

As of December 31, 2021, the Group has been providing internet infrastructure services to approximately 306,000 customers. In the Group’s estimate, its market share is approximately 12%.

The Company’s estimates regarding the possible effect of expanding IBC’s deployment and Bezeq and Hot entering the field of fiber-optics on its competitive position is deemed forward-looking information, as such term is defined in the Securities Law, which are based on the

Company's current information as of the Report date, and include estimates and analyses of the Company. These estimates could not materialize, could partially materialize, or could materialize differently than expected, being subject to factors outside the Company's control, including the progress of fiber-optic infrastructure deployment by IBC and Bezeq, as well as the materialization of all or some of the risks set forth in the framework of the risk factors in the Group's area of activity, as set forth in Section 26 below.

For the Company's estimates regarding the impact of terminating separating between internet connectivity and infrastructure, see Section 11.1 above.

International internet access is provided by three underwater cables by Telecom Italy Sparkle, Tamares Telecom Ltd. and Bezeq International. For details see Section 15.3 below.

b. Multi-channel television services

Until the Group's entry into the multi-channel television market in December 2014, the multi-channel television market was controlled by Hot (a declared monopoly in this field) and Yes (from the Bezeq group), which as of September 30, 2021, provided this service to approximately 780,000 and 560,000 households, respectively.[12]

The Group offers internet based multi-channel television services (OTT services which integrate Netflix and Amazon Prime apps (internet-based VOD content providers), including through direct access from the Group's television platform. As of December 31, 2021, the Group has been providing this service to approximately 252,000 customers. In the Group's estimate, its market share in this field is approximately 14%. Similarly, Partner markets an OTT solution that includes Netflix app (including monthly statement billing) and the Amazon Prime service. Hot and Yes each market a discounted OTT brand, called Next TV and

[12] The data with respect to the number of households to which Hot provides multi-channel television services is based on the Group's estimates.

Sting TV, respectively. In addition, in the framework of transitioning from satellite broadcasts to OTT technology, Yes launched an additional OTT brand referred to as Yes+. During 2022 Yes is expected to include Netflix and Disney (another international internet based VOD content provider) in its OTT service (including monthly statement billing).

The service offered by Hot also includes the Netflix app.

It is noted that Netflix and Amazon Prime provide their services to viewers in Israel as a supplemental service for existing content of current competitors. Disney announced it would enter the Israeli market in summer 2022.

In September 2021, the Director General of Competition decided to grant an exemption from approval of a restrictive arrangement for an initiative to establish an internet based multi-channel broadcasting platform through cooperation of Keshet Broadcasting Ltd. ("**Keshet**") and RGE Group Ltd. ("**RGE**"), two of the primary content providers for the Group's television services (for details see Section 15 below). In addition, approval was granted for Keshet's acquisition of 24.9% of RGE's shares. The arrangement was approved for a period of four years at the end of which renewal of the exemption for an additional period and continued holding of RGE shares shall be reevaluated. Entrance of the new platform, which is expected in 2022, if it does occur could increase the current competition level in the market. At this stage the Group cannot estimate the impact of entrance of the new platform on its results and/or its business relationship with its content providers.

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

c. <u>International calls services</u>

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

The Group is one of the main providers of international calls services in Israel, while the Group's main competitors are Bezeq (through its subsidiary - Bezeq International) and Partner (through a fully owned corporation). Similarly, there are additional competitors such as Xfone and Hot (through fully owned corporations or related companies).

In the Group's estimate, as of December 31, 2021, the Group's market share in the market for international calls services is approximately 20-30%.

d. Fixed-line telephony services (domestic operator)

The fixed-line telephony market has for many years been controlled by the Bezeq group, a monopoly in the fixed-line telephony market, and by the Hot group. According to publications by the Ministry of Communications, as of June 10, 2019, Bezeq held approximately 72.6% of reported revenues fixed-line telephony services in Israel (and a larger market share among business partners). Additional providers in the area of domestic fixed-line telephony services are the Group and Partner.

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

For details regarding fixed-line telephony services in the framework of the Wholesale Market, see Section 21.5(2) below.

e. Other fixed-line services

Transmission and data communication services, which are designed for business customers and for communication operators, are provided by the Group and the Bezeq group, Hot and Partner, and since 2019 also by IBC. In 2019 competition in the field intensified, mainly due to pricing plans offered by the Hot and Partner groups, the Bezeq group's price reductions, and increased consumption.

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

12. Fixed property, land, and facilities

12.1. General

The net balance of the Group's fixed property as of December 31, 2021, and December 31, 2020, is approximately NIS 1,383 million and NIS 1,402 million, respectively.

For details regarding restrictions on pledging the fixed property and the equipment used for providing services in the framework of the Group's licenses, and additional restrictions on the Group in creating a pledge on its assets, see Sections 18.4 and 21.3 below.

For details regarding a backup system for disaster recovery, a business continuity plan and a disaster recovery plan, see Section 12.2 below.

12.2. Networks

The Company's entire activity is based on its networks, below are details regarding the Company's networks in its areas of activity:

Mobile communications

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

As of the Report date, the Group operates networks with LTE technology ("**4G Network**"), UMTS/HSPA+ (3G and 3.5G) ("**3G Network**"), and GSM/GPRS/EDGE (2G and 2.5G) ("**2G Network**"), which cover the vast majority of populated areas in Israel, and NR 5G technology ("**5G Network**") in the process of deployment.

In February 2021, the Ministry of Communications decided to require cellular operators to perform an additional stage of their universal deployment commitment with respect to the 4G Network, generally within two years from the date of the decision (excluding Marathon, for which the instruction date to perform an additional stage applies only in 2022).

In June 2021, the Ministry of Communications decided to stop service over 2G and 3G technology ("**Old Technologies**") by December 31, 2025 ("**Effective Date**") (with an option to precede expedite to January 1, 2025 subject to certain condition) and various interim arrangements that shall apply until the Effective Date. In addition, the Ministry of Communications ordered extending the allocation of frequency bands previously allocated for the Old Technologies for use with more advanced technologies until December 31, 2030. In addition see Note 2 to the Company's Financial Statements included in Chapter C of this Periodic Report, regarding the impact of such decision on the manner of depreciating fixed assets and intangible assets related to the Old Technologies.

This process shall allow the Group to save on the operating costs of these networks and utilize the frequencies that would be freed up, should they remain in the Group's possession,[13] to improve the performance of the 4G and 5G networks.

The Company's estimates regarding the possible effect of shutting down the 2G and 3G Networks in its results is deemed forward-looking information, as such term is defined in the Securities Law, which are based on the Company's current information as of the Report date, and include estimates and analyses of the Company. These estimates could not materialize, could partially materialize, or could materialize differently than expected, being subject to factors outside the Company's control, including changes in the regulatory environment in which the Group

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[13] See Section 11.2 below.

operates, and decisions regarding the manner of implementing the regulatory arrangement, as well as the materialization of all or some of the risks set forth in the framework of the risk factors in the Group's area of activity, as set forth in Section 26 below.

Below are details about the Group's cellular networks:

a. 4G (LTE) Network - launched in 2014. Allows downloading and uploading data at a rate of up to approximately 150 megabits per second and approximately 50 megabits per second, respectively, and including the 4G frequencies subject of the 2020 frequencies tender, at a rate of up to approximately 400 megabits per second and 70 megabits per second, respectively.[14] The majority of data traffic on the Group's networks is through this network, which covers most of Israel's population. Upon activation of the VOLTE (Voice Over LTE) service, which allows making calls on the 4G Network, a gradual transition began for calls from the 3G Network to this network and as of the Report date approximately one third of the calls on the Group's networks are on the 4G Network. Further to the Group winning the frequency tender, as described in Section 13.5 below, the Group intends to continue the deployment of the additional 4G frequencies network in order to continue allowing its customers a data transfer service at the highest rate possible. The Group's 4G Network is shared with Marathon (in MOCN configuration). For additional details regarding the network sharing agreement with Marathon, see Section 23.1 below.

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

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

to continue responding to demand for data communication and UMTS/HSPA+ technology while maintaining quality service.

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

d. 5G network (NR 5G) - The 5G Network was launched in 2020. It is based on an advanced technological standard (78N), which allows uploading and downloading data at higher rates (up to 1.3 gigabits per second and 50 megabits per second, respectively, on a frequency bandwidth of 100 megahertz). The network facilitates more widespread use of technologies in the area of the internet of things (IOT). In 2020 and 2021 the Group deployed the network in selected areas, and it intends to continue such deployment in the next few years.

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

The Group is paying usage fees to the State of Israel for the frequencies used by the Group. See section 21.1(2) below.

The connectivity to the Group's cellular network is primarily provided through an independent fiber-optic network, while using microwave equipment[15] as a complementary solution. Similarly, the Group leases additional supplementary capacity from Bezeq, Hot, and IBC.

According to the regulator's requirements from all telephony service providers in Israel, the Group's cellular network is directly or indirectly connected to the networks of the other telephony services providers in Israel.

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

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

The Group’s forecasts with respect to the deployment of the 4G and 5G Networks, including optimization of these networks and its results, are deemed forward-looking information as such term is defined in the Securities Law. These are predictions the materialization of which are not certain, being subject to factors outside the Group’s control, and among others is subject to the effects of the risks set forth in the framework of the risk factors in the Group’s area of activity, as set forth in Section 26 below.

Fixed line communications

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

The Group established and is operating a SDH transmission network as well as a Carrier Ethernet network, and from time to time it expands and upgrades these networks. These networks, which cover the majority of populated areas and most of the business centers in Israel, and which include real-time malfunction management and monitoring systems, allows the Group to provide its business customers with telephony data transfer (transmission) services at high speeds and quality, while reducing the need on its part to lease additional capacity from external providers.

The Group's fiber-optic transmission network is strategically deployed with the purpose of providing coverage to most of Israel's business centers, from Nahariya in the north to Beer Sheva in the south and to Afula and Jerusalem in the east, and its length is approximately 1,990 km. The fiber-optic transmission network is monitored by a malfunction management system that monitors in real time, in order to allow the Group to provide high quality services. In order to efficiently complete coverage of the Group's network to most of its cellular sites and to the Group's transmission and domestic business operator customers, the Group uses a microwave network as a complementary solution for regions that are not covered by the Group's transmission network, which is based on fiber-optics. As of December 31, 2021, the Group has approximately 2,134 microwave links to the Group's cellular sites, and to the transmission and domestic business operator customers of the Group.

The Group pays the State of Israel a usage fee for frequencies that it uses through the microwave network. Similarly, the Group leases additional capacity from Bezeq and Hot that is required for the fixed-line services provided to its business customers.

For details about backup, disaster recovery plan and continuity of service, see above under "Fixed-line communications area".

For details about the sale of the Group's independent fiber-optics infrastructure in residential areas to IBC, and the purchase of the IRU right in IBC's fiber-optic infrastructure, see Sections 17.3 and 17.1 below, respectively.

As of the publication date of this Report, the Group's internet infrastructure is composed of three switch sites located in Haifa, Or Yehuda and Netanya, which are connected through underwater fiber-optic systems in which the Group purchases long-term rights of use, for three international switching nodes, in Frankfurt, Marseille and London, and through which the Group's network is connected to the global Internet. For details see Sections 11.4 above and 15.3 below. This Internet infrastructure includes backup capability in order to guarantee continuity of service.

12.3. Real Estate

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

a. **The Group's headquarters in Netanya** - In 2003, the Group engaged in a lease agreement of an asset with an area of approximately 58,000 sqm, including approximately 32,000 sqm to be used for the Group's offices and including approximately 26,000 sqm used as an underground parking. Since 2015 the Group is leasing out part of the property. In November 2021 the Group extended the lease agreement for eight more years (from January 1, 2023 to December 31, 2030) only with respect to an area of 16,000 sqm serving the Group's headquarters (without areas currently leased out to subtenants that are expected to go back to the possession of the owners at the end of 2022) and also with respect to underground parking areas. The Group has an option to extend the agreement for another period of 5 years. In light of reducing leased areas, rent and ancillary expenses decreased by approximately NIS 12 million per year, from 2021. **Technological-logistical center in Netanya** - In 2010 the Group engaged in a lease agreement with respect to a property with an area of approximately 11,000 sqm, which serves as the Group's technological-logistical center. The lease agreement ends in December 2022, while the Group has an option to extend the lease agreement until July 2026. Should the Group not exercise such option, it must pay compensation of approximately NIS

8 million. Since 2015, the Group has been renting out part of the property (as of the Report date approximately 6,100 sqm) under subleases for periods of between 5 to 6 years. The sub-tenants have the option to extend the sublease for an additional period, under certain conditions set forth in agreements with them.

b. **Properties in Haifa, Tel Aviv, and Rosh HaAyin** - The Group is leasing a property in Haifa with an area of approximately 8,900 sqm, a property in Tel Aviv with an area of approximately 1,500 sqm, and a property in Rosh HaAyin with an area of approximately 3,050 sqm. The properties in Haifa, Tel Aviv, and Rosh HaAyin serve the Group as offices, call service centers and warehouses for servers and equipment. The Haifa lease agreement ends in December 2023, while the Group has an option to extend it for an additional period of two years. The Tel Aviv lease agreement ends at the end of 2023, while the Group has an option to extend it for two additional option periods of two and a half years each. The Rosh HaAyin lease agreement ends in December 2023, while the Group has an option to extend it for two additional periods of approximately two years each. The Group rents parts of the Haifa and Rosh HaAyin properties to subtenants.

c. **Service centers and points of sale** - As of the Financial Statements date, the Group is leasing approximately 70 service centers, points of sale, and additional installations that serve the Group for purpose of sales and providing services to its customers. According to most, the lease agreements are for periods of approximately 3 years with a variable option to extend for additional periods. The Group is constantly acting to reduce and close points of sale the activity of which are a loss, and on the other hand to open points that improve the network's deployment and increase sales.

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

The Company's estimate regarding an exacerbation of the difficulties in extending lease agreements for purpose of its cellular telecommunication installations is deemed forward-looking information as defined in the Securities Law, which is based on the Company's current information as of the Report date, and it includes an estimate and analysis of the Company according to the Company's cumulative experience in connection with such lease agreements. Such estimate may not materialize or may partially materialize, since it is affected by an abundance of factors that are outside the Company's control, including the materialization of all or some of the risks set forth in the framework of the risk factors in the Group's area of activity, as set forth in Section 26 below.

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

f. **Permission agreement with the Israel Land Authority** - In June 2013, the Group renewed its permission agreement with the Israel Land Authority, for the use of land in order to establish and operate Small and Very Small Transmission Handsets as such are defined in National Zoning Plan 36. The agreement ended in December 2019, and on January 27, 2022 a decision of the Israel Land Council was published whereby the agreement shall be renewed for a period of five years from

January 1, 2020 and that annual usage fees for each facility shall be significantly reduced. A draft of the new agreement has not yet been received. The license agreement sets forth that subject to prior approval from the Israel Land Authority, the Group may establish and operate transmission handsets on the land, including on land leased to third parties, for the duration of the license period. Similarly, it was determined that specific licenses and contracts to be executed following the license agreement, shall under certain circumstances be cancelable by the Israel Land Authority, subject to prior notice. In addition, the Group undertook to vacate all facilities installed in the licenses areas at the end of the agreement period, unless the license agreement is extended.

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

13. Intangible Assets

13.1. Goodwill - Goodwill in the Company is created when allocating surplus costs following the acquisition of subsidiaries. Goodwill is examined at least once a year for purpose of examining devaluation. Goodwill is not methodically reduced. Total goodwill in the Company's books as of December 31, 2021, is approximately NIS 1,563 million, including NIS 831 million for goodwill attributed to the mobile sector and NIS 732 million for goodwill attributed to the fixed-line sector. For details and goodwill impairment testing see Note 13 of the Financial Statements.

13.2. Customer relations and brand - Upon the acquisition of the subsidiary Golan, intangible assets of customer relations and brand were identified, totaling NIS 110 million and NIS 35 million, respectively. These assets are lowered over a period of 6 and 10 years, respectively.

13.3. Cost of customer acquisition - The Company capitalizes incremental costs for purpose of achieving a contract with customers, while the Company is expected to return these costs according to IFRS 15. The Company subtracts these assets according to the average customer churn rate.

13.4. Licenses - For details about licenses held by the Group for purpose of providing services in the mobile and fixed-line communications field, see Section 21.3 below.

13.5. Rights to use frequencies in the area of mobile communications

Allocation of frequencies

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

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

- 2X5 MHz in the 850 MHz frequency band that are used for the Group's 3G network, until the end of 2030.
- 2X25 MHz in the 1800 MHz frequency band, used for the Group's joint 4G Network and 2G Network. 2X3 MHz from these frequencies were allocated to the Group in a 4G tender (in 2014) for a period of only 10 years, unlike other frequencies allocated to the Group in the past for the Cellular License period, and 2X5 were originally allocated to Golan, and upon the completion of its acquisition by the Group, they were allocated to Cellcom until the end of 2023. Allocation of the rest of the frequencies (17 MHz) until the end of 2030.
- 2X10 MHz in the 2100 MHz frequency band used for the Group's 3G Network, until the end of 2030.
- In the framework of the joint network, use is made of 2X5 MHz in the 1800 MHz frequency band, which were allocated to Marathon.

- In the 2020 Tender (as defined below) the Group was allocated 2X5 MHz in the 700 MHz frequency band, for a period of 15 years; 2X10 MHz in the 2,600 MHz frequency band for a period of 15 years; and 80 MHz in the 3,500-3,600 MHz frequency band for a period of 10 years; Marathon, the Group's partner in the joint network, won 5 MHz in the 700 MHz frequency band, for a period of 15 years; 10 MHz in the 2,600 MHz frequency band for a period of 15 years; and 20 MHz in the 3,500-3,600 MHz frequency band for a period of 10 years. These frequencies have not yet been allocated to it.

  Cellcom was temporarily and for limited use allocated 5 MHz in 700 MHz and 10 MHz in 2,600 MHz, which are later designed for allocation to Marathon, the Group's partner to the joint network, as the winning frequencies of the 2020 frequencies tender.

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

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

Winning the frequencies in the 2020 Tender

For the new frequencies that the Group and Marathon won in the frequencies tender conducted in 2020 ("**2020 Tender**"), the Group and Marathon shall pay NIS 115 million in 2022.

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

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

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

The Company's estimates regarding the possible implications of the lack of option to use Marathon's frequencies as set forth above are deemed forward-looking information as defined in the Securities Law. The Company cannot estimate to what extent the difficulties in allocating the frequencies and obtaining the approvals and permits shall affect the Group's operating results. The Company's estimates may not materialize or may partially materialize or in a manner different than expected, since they are affected by an abundance of factors that are not in the Company's control and they are inter alia subject to the effect of the factors set forth above and any change that shall apply to them, and to the effect of the risk factors in the Group's area of activity, as set forth in Section 6.26 below.

Requirement to switch frequencies

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

As of the Report date, the Group's bandwidth in the 850 MHz frequency band was reduced from 10 MHz to 5 MHz, and it was moved to a substitute band. On a later date to be determined, the frequency band in the 850 MHz area shall be terminated, and instead the Group shall be offered a frequency band that is completely in the 800 MHz frequency band. The Ministry of Communications shall consider allocating part of the revenue from frequency tenders in the 800 or 900 MHz frequency bands, if any such tenders shall be conducted, towards accelerating the process of switching frequencies, as aforesaid.

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

The Company's estimates regarding the possible effects of transferring to frequencies that are compatible with the European standards as set forth above, are deemed forward-looking information as defined in the Securities Law. The main facts and data that served the Company as a basis for such estimate are its experience over the years with updating the network to new technologies. These estimates may not materialize or may partially materialize, since they are affected by an abundance of factors that are not in the Company's control and they are inter alia subject to the effect of the risk factors in the Group's area of activity, as set forth in Section 26 below.

13.6. Trademarks

As of the Report date, the Group has more than 160 domains and nearly 100 trademarks and registration requests. The Group's main trademarks are Cellcom, Talkman, Cellcom tv, Netvision, 013 Netvision, Golan Telecom and Dynamica. In addition, the Group has a number of registered patents.

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

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

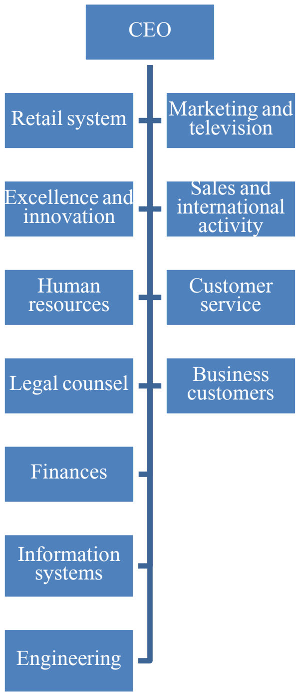
13.7. The GSM Association - The Group is a member of the global GSM Association, which gathers various cellular operators from all around the world that use the GSM technology. As a member of the association, the Group may use the Association's intellectual property rights, including use of the Association's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

13.8. Software rights - In addition, the Group uses computer software and systems, some of them under licenses that it purchased and some that were developed by the Group. A considerable part of such licenses are limited in time and are renewed from time to time.

14. Human capital

The Group's ability to achieve its strategic goals to a large extent depends on the quality of its employees, and therefore the Group is acting to hire the most suitable candidates for every position, and to grant the employees the training that they require for effectively performing their tasks. The Group sees great importance in its employees being satisfied, while making sure they are efficient and productive. The Group implements a performance appraisal system that from time to time analyses the employees' performance and helps the Group to improve their performance and accordingly their compensation, and it helps identifying, maintaining, and promoting its best employees. In accordance with the Group's service concept, approximately 74% of the Group's manpower is engaged in roles directly dealing with customers.

14.1. Below is a description of the Group's organization structure as of the Report date:



14.2. Employee headcount

Below are details about the number of employees in the Group:[16]

	31-Dec-2021	31-Dec-2020	31-Dec-2019
Management and HQ	43	47	58
Human resources	128	133	159
Marketing and television	40	34	38
Customers*	1,987	2,171	2,362
Finances	91	90	106
Information technologies and systems	490	479	542
Total	2,779	2,954	3,265

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

14.3. Material changes in the employee list during the period described in the Report

As set forth in Section 14.2 above, the decrease in the Company's employee headcount in 2020 compared to 2019, mainly derives from voluntary

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

retirement plans adopted by the Company, as set forth in Section 14.6 below. On the other hand, the headcount data as of December 31, 2020 and December 31, 2021, includes the employee headcount in Golan, the acquisition of which was completed at the end of August 2020.

14.4. Training

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

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

14.5. Terms of employment

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

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

For details about the collective employment agreements, see Section 14.6 below.

For details about senior officers compensation, see Regulation 21 in Chapter D of this Periodic Report.

14.6. Collective employment agreements

In July 2018, the Company and Dynamica engaged in a collective employment agreement with the employees' representative and the Histadrut for a period of three years, until the end of 2020 (the "**2018 Agreement**"). The 2018 Agreement applies to all of the Group's employees, except for employees in certain roles. The 2018 Agreement defined the

Group's policies and employment terms in different aspects, which are better than the requirements of Israeli law, including provisions regarding minimum salary, raising the annual salary, incentives, benefits, provisions to the advanced study fund, participation in the Group's operating profit (12.5% above annual operating profit of NIS 400 million, divided quarterly) and annual or one-time payments. In addition, a welfare budget for employees and various procedures were determined that *inter alia* pertain to staffing company positions, changing the place of employment, and dismissals. In May 2019, the Group, the employee representatives, and the Histadrut engaged in a new collective employment agreement (the "**2019 Agreement**"), which amends the 2018 Agreement, in the framework of which the Group's costs with respect to the collective employment agreement were reduced, and the Group granted eligible employees options and RSUs, and RSUs to the employees association.

In Q4 of 2019, the Group, the employee representatives, and the Histadrut reached agreements, and in February 2020 the parties engaged in a new collective employment agreement (the "**2020 Agreement**"), whereby, *inter alia*: a voluntary retirement plan would be launched; the Group would grant eligible employees options and RSUs, in three installments, subject to the fulfillment of certain conditions and subject to the vesting set forth in the agreement; and the employees would be entitled to propose a candidate to serve as a director in the Company's board of directors (subject to approval of the Company's competent organs).

Each collective employment agreement set forth that it terminates an earlier collective dispute that was announced by the Histadrut.

In Q1 2020 (according to the 2020 Agreement as set forth above) the Group together with the employees' organization launched a voluntary retirement plan for employees. The Group's costs for such plan was approximately NIS 45 million.

In April 2021 the Company and Dynamica executed a collective bargaining agreement with the employees' organization and the Histadrut for a period of three years (2021-2023). The agreement includes policies and employment terms similar to those customary in the Company with a number of changes, including an average salary increase of 3% in 2022 and 2023 for eligible employees and mechanisms allowing the Company to improve its level of service and operating excellence, *inter alia*, by perpetual improvement of manpower quality and quantity. The clause regarding employee participation in the Company's profits remained unchanged.

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

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

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

14.7. <u>Employee compensation plans</u>

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

b. Capital compensation for employees - in March 2015 the Company adopted the option plan and/or restricted share units for employees, officers, and service providers.

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

15. Vendors

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

Primary vendors

The Group considers primary vendors those vendors accounting for more than 10% of the Group’s total annual purchases. Accordingly, Samsung International Co. Ltd. (“**Samsung**”) and Apple Distribution International (“**Apple**”) were primary vendor of the Group in 2021, as the Group’s purchases from them constituted approximately 13% and 12%, respectively, of the Group’s total purchases during such period. Samsung provides the Group with Samsung cellular phones and other products and spare parts for such handsets. The purchase terms, including price, are determined from time to time in negotiations between the parties. Apple provides the Group with iPhone cellular phones and other products and spare parts for such handsets. The purchase terms are set forth in an agreement for purchase and distribution of iPhone products in Israel dated April 2021. The agreement shall be in effect until March 2024.

Dependence on vendors

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

15.1. Cellular network equipment

(1) In April 2014, the Group engaged under a framework agreement with NSN Israel, a member of the Nokia Networks Group an international networks manufacturer, to purchase an LTE network that supports the LTE-Advanced technology (4.5G) and ancillary services. This agreement also applies to the purchase of equipment and services provided according to the Group's previous agreement with NSN Israel in connection with the core system, radio access network, and ancillary services and products for the Group's GSM/GPRS/EDGE/UMTS/HSPA networks. Under the agreement, the Group may purchase maintenance services annually until March 2030. In 2020 the parties executed an addendum to the framework agreement with respect to purchasing 4.5G and 5G radio access equipment and for purchase of maintenance services as stated above. In 2021, the Group continued purchasing network core components from NSN to put calls through the 4G Network (VOLTE) and radio access equipment for its joint network with Marathon to support new frequencies (4G and 5G) won in the 2020 tender.

(2) In September 2005, the Group engaged with LM Ericsson Israel Ltd. for the purchase of a radio access network and ancillary products and services with UMTS technologies. In December 2011, the Group engaged with LM Ericsson Israel Ltd. to purchase upgraded UMTS/HSPA products and ancillary products. Under the agreement, the Group may purchase maintenance services annually until 2026.

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

15.2. End-user equipment

(1) For details regarding the Group's engagement with Samsung and Apple, see the description of primary vendors above in this Section 15.

15.3. Internet infrastructure

(1) Between 2013 and 2020, the Group executed multiple agreements with Telecom Italy Sparkle and Tamares Telecom Ltd., for purchasing rights to use certain capacities in the submarine optical cable that connects the Israeli Internet with the global Internet, in addition to maintenance and operating services for said infrastructure. The rights of use for most of the capacities purchased by the Group shall be in effect until 2032.

(2) The Group engaged with Bezeq and Hot, the Israeli market's primary Internet infrastructure providers, to provide connectivity services to the Group. Because of the increased demand for broadband bandwidth among Group customers in recent years, the Group was occasionally required to increase the capacities it purchases from Bezeq and Hot, albeit at a lower growth rate than previously required and recently a decrease was recorded in the purchased capacity. This is due to efficient and advanced technologies and the alternative of purchasing Internet infrastructure services from Bezeq and Hot in the framework of the Wholesale Market and transition to fiber-optic infrastructure also on Bezeq and the supply of Internet services to customers through IBC's fiber-optic network.

(3) Since 2015, the Group has been purchasing bit-stream access (BSA) Internet infrastructure services from Bezeq according to the terms of the Wholesale Market regulating both the service specifications and the service prices, which include a fixed component and a component based on the capacity required by the Group for its customers. From July 2021, the Company has been purchasing this service from Bezeq also on Bezeq's fiber-optic infrastructure while the price of the service is fixed in relation to the speeds defined in regulation (for details see Section 21.5(2) below). The scope of BSA service procurement from Bezeq has increased over the years, according to the increase in the

Group's engagements with customers who purchase Internet infrastructure services from the Group, and the increase in the demand by the Group's customers for greater bandwidth (capacity), although the pace has been lower in recent years due to provision of internet services to customers on IBC's fiber-optic network. For more details regarding the terms of the Wholesale Market, see Section 21.5(2) below.

(4) For the agreement between the Group and IBC to purchase indefeasible rights of use (IRU) for IBC's fiber-optic infrastructure, see Section 17.1 below.

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

15.4. <u>Other vendors in the fixed-line communications area</u>

(1) In June 2004, the Group engaged with Nortel Networks Israel (Sales and Marketing) Ltd. (currently, with Ribbon Communications that acquired Nortel's operations) for purchasing an international communications switch that is used to provide international call services, as well as equipment and ancillary services.

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

15.5. <u>Equipment and content for the OTT television services</u>

(1) In 2019, the Group engaged with Kaltura Europe Ltd., for purchasing a new cloud-based content management platform for the Group's OTT television services (that replaced Ericsson LM's set of OTT TV services the Group used until the end of 2020). Among others, the new

platform enables integration, management, distribution, analysis and protection of the content.

(2) In 2013, the Group engaged with Vubiquity Management Ltd. (later acquired by Amdocs Israel Ltd.), a leading global provider of multi-platform video services and solutions, to provide international content and content operation services for the Group’s OTT television service. The agreement is in effect until the end of 2022. The agreement may be renewed by additional one-year periods, unless either party terminates it sooner with prior notice.

(3) In January 2016, December 2016, and July 2021, the Group engaged with One Sports Television Services Ltd., Charlton Ltd. and RGE Group Ltd., respectively, to purchase the broadcasting rights for the sports channels they operate exclusively. In general, the agreements are in effect at least until the end of 2022 and some of the agreements grant the Company extension options.

(4) The Group engages with Israeli copyright organizations for arranging the use of content in the music services and Cellcom tv service. The consideration paid to the royalties organizations varies and is set according to the market standards, based on the scope of using the rights on Cellcom services.

(5) In October 2014 and July 2017, the Group engaged with Keshet Broadcast Ltd. (“**Keshet**”), Reshet Noga Ltd. (“**Reshet**”), and the Israeli Broadcasting Corporation (the “**Broadcasting Corporation**”) respectively, in the framework of which the Group received a license to use content of Keshet, Reshet, and the Broadcasting Corporation on Cellcom tv; the agreements were made for 5 to 7 years; the agreements with Reshet and Keshet include consideration arrangements, based on the number of Cellcom tv subscribers. The Company and Reshet are negotiating renewal of the agreement.

15.6. Information systems

The Group uses a variety of information systems that allow proving customer service while improving internal processes in the Group. The

Group's billing and CRM (Customer Relationship Management) systems are mostly supported internally by the Group. Below are the primary vendors of the Group's information systems:

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

(2) The Group uses ERP solutions provided by SAP.

16. Working capital

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

16.1. Customer credit

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

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

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

16.2. Credit from vendors

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

16.3. Below is data on vendor credit and customer credit in 2019, 2020 and 2021:

	2021		2020		2019	
	Credit in NIS millions	Average credit days	Credit in NIS millions	Average credit days	Credit in NIS millions	Average credit days
Customers, for sale of end-user equipment (*)	370	132	469	235	663	280
Customers for services (*)	429	60	382	65	467	66
Vendors	737	64	768	68	687	65

(*) Net of doubtful debts.

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

	As of December 31, 2021	**As of December 31, 2020**	**As of December 31, 2019**
Current assets	1,801	2,299	2,759
Current liabilities	1,709	1,929	1,826
Surplus current assets to current liabilities	92	370	933

As of December 31, 2021, there is a decrease of NIS 278 million in surplus current assets to current liabilities compared to the balance at the end of 2020. This decrease mostly derived from a decrease in the deposits used among other for repayment of debentures and as result of a decrease in the customers item as result of a decrease in customers for long time equipment.

17. Investments

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

a. **Partnership agreements** – The Group engaged with IIF – Israel Infrastructures Fund ("**IIF**") to establish a jointly owned limited partnership, held in equal shares, which shall purchase 70% of IBC's shares (in this Section, the "**Partnership**"). The Partnership's agreements include undertakings on behalf of the Group and IIF, to invest up to NIS 200 million in the Partnership over three years pro rata to their holdings, and provisions on resolving deadlock situations. As of the Report date, the Group has fulfilled all its undertakings related to the additional investment.

b. **Share purchase agreement** – The Partnership, Israel Electric Corporation ("**IEC**"), IBC and the shareholders and other primary creditors of IBC engaged under agreement in the framework of which the Partnership acquired 70% of IBC's issued and paid-up share capital by investing NIS 110 million in IBC by the Partnership (of which the Group paid half) (the "**Consideration**"), most of the amount was granted to IBC as a shareholders' loan (loans extended at interest rates of 4%-6% above the most senior debt). According to the share purchase agreement, IEC shall hold the remaining 30% of IBC's issued and paid-up share capital.

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

d. **Agreement to purchase an IRU on IBC's fiber-optic infrastructure** – Under the agreement, the Group undertook to purchase an indefeasible right of use (IRU) from IBC on IBC's infrastructure lines, at the rate of 10% to 15%[17] of customer households in buildings connected to IBC's fiber-optic infrastructure ("**Home Pass**"). All based on deployment of fiber-optic infrastructure by IBC in the next 15 years up to a certain number of customer households in connected buildings (including an option to extend the period of use of lines by additional periods under certain conditions, for no additional consideration except the annual maintenance fee). The IRU consideration varies according to actual deployment of Home Pass infrastructure by IBC and is likely to increase every quarter according to the new infrastructure deployed in that quarter. The IRU consideration shall be paid in 36 quarterly instalments (9 years), plus an annual maintenance fee. The IRU agreement reduced the Company's expenditure by using IBC's infrastructure instead of Bezeq and Hot's infrastructures in 2019-2021,

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[15] The Group's undertaking was 15% until the completion of Hot's investment transaction in IBC, and it currently is 10%.

as well as its investments (in practice during such years and projected in the future) in deploying an independent fiber-optic infrastructure in residential areas. For the Group's estimates on the effect of this agreement on the Company's competitive position, see Section 11.4 above. As of the end of 2020 and 2021, the cumulative amount of the Home Pass is approximately 560,000 and 735,000, respectively.

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

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

a. **Investment agreements –** Between the IBC partnership and Hot, in the framework of which Hot shall become an equal partner in the IBC partnership (whereby each shall indirectly hold 23.3% of IBC's share capital) by making an investment materially equal to the investment made by each of the Group and IIF until the date of completing the transaction. Furthermore, the investment agreements include additional corporate governance rights and other mechanisms.

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

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

IBC also undertakes to continue purchasing certain services provided to it by the Group, beyond the completion date.

Approval of the Ministry of Communications for the transaction included amendments to IBC's license, including an undertaking to deploy the network whereby 1.7 million households shall have access to the network upon the lapse of 5 years, which generally reflects the contractual agreements of the transaction, as stated above, and to provide a shelf offer for any operator interested in purchasing its services.

17.3. <u>Sale of the Group's independent fiber-optic infrastructure in residential areas to IBC</u> – In July 2019, the Group and IBC completed a transaction to sell the Group's independent fiber-optic infrastructure in residential areas to IBC, in consideration for NIS 181 million. The sale consideration was financed entirely with the shareholders' loans provided to IBC by the partnership, as set forth in Section 17.1. Upon completing the transaction, the IRU agreement, including the Group's undertaking to purchase an indefeasible right of use for a certain percentage of households in the buildings connected to IBC's Home Pass fiber-optic infrastructure (as set forth above) also applies to the fiber-optic infrastructure IBC acquired from the Group.

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

NIS 440 million shall be provide, both of which shall be in effect for 48 months. Amounts drawn by IBC shall be repaid by December 31, 2032.

17.5. The Golan acquisition transaction – On August 26, 2020, a transaction was completed to purchase Golan's entire issued and paid-up share capital by Cellcom, in consideration for NIS 613 million. For more information, see Note 7 to the Financial Statements.

The Company's above estimates, regarding the described effects of its investment and Hot's investment in IBC, are deemed forward-looking information, as such term is defined in the Securities Law. The Group's estimates are based on the information available to the Group as of the Report date, including the Group's estimates and analysis. These estimates could not materialize, materialize only in part or materialize differently than expected, because they are affected by many factors outside the Company's control, including the progress of deploying fiber-optic infrastructure by IBC according to the projected pace of deployment, and the materialization of all or some of the risk factors detailed in the Group's area of activity as set forth in Section 26 below.

18. Financing

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

18.1. Average and effective interest rates

Below are details regarding the average and effective interest rates on the Company's long-term loans and debentures (including current maturities) that are in effect, or were in effect in 2019, 2020, and 2021, which are not designated for unique use by the Company, while distinguishing bank credit sources and off-bank credit sources:

	2021		2020		2019	
	Average interest	Effective interest	Average interest	Effective interest	Average interest	Effective interest
Off-bank sources – index-linked	2.05%	4.26%	2.38%	4.33%	2.76%	4.39%
Off-bank sources – unlinked	3.20%	4.10%	3.42%	4.15%	3.69%	4.25%

	2021		2020		2019	
	Average interest	**Effective interest**	**Average interest**	**Effective interest**	**Average interest**	**Effective interest**
Bank sources – unlinked	4.00%	4.00%	4.00%	4.00%	4.38%	4.38%
Total liabilities	2.97%	4.13%	3.18%	4.19%	3.42%	4.30%

18.2. The Company's debentures

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

For information about the Debentures, see Section 14 of the Board of Directors' Report and Note 19 to the Financial Statements.

18.3. Credit and loans from banking corporations and financial corporations

Below is concentrated data regarding material loan and credit agreements as of the Prospectus date or which were in effect during the Prospectus period:

18.3.1. In May 2015, the Company executed an agreement with two institutional investors (in this Subsection: the "**Lenders**"), in the framework of which the Lenders provided the Company, subject to standard terms, two deferred loans in a total amount of NIS 400 million, unlinked (the "**Loan Agreement**"). On June 31, 2021, the Company repaid both loans in full.

(1) The first loan, for NIS 200 million, was provided to the Company in June 2016, at fixed annual interest of 4.6%. According to the terms of the loan, repayment of principal is made in four equal annual installments, beginning on June 30, 2018, and until full repayment on June 30, 2021. The interest is paid in semiannual installments from December 31, 2016, and until June 30, 2021.

(2) The second loan, for NIS 200 million, was provided to the Company in June 2017, at fixed annual interest of 5.1%. According to the terms of the loan, repayment of principal is made in four equal annual installments, during the years

2019 to 2022 (inclusive). The interest is paid in semiannual installments starting on December 31, 2017, and until June 30, 2022.

18.3.2. In June 2017, the Company engaged with an Israeli banking corporation (in this Subsection: the "**Lender**") under a deferred loan agreement in the amount of NIS 150 million, subject to certain conditions, unlinked. The loan was provided to the Company in March 2019 and it bears fixed annual interest at the rate of 4%. According to the terms of the loan, principal is repaid in for equal annual installments in the years 2021 to 2024 (inclusive). Interest is paid in semiannual installments starting on September 30, 2019, and until March 31, 2024.

In October 2020, the Company performed partial early repayment in the amount of NIS 113 million out of the loan principal, and in March 2021 the Company repaid the balance of the loan in the amount of NIS 38 million.

18.3.3. In February 2022 the Company engaged with an institutional entity (the "**Lender**") under an agreement for providing a credit facility of up to NIS 250 million, for a period of 24 months from the date of providing the credit facility (the "**Credit Facility**") that shall allow the Company to receive loans, per the Company's selection, not linked to any index, of two kinds:

(1) Short term loans to be repaid from time to time per the Company's selection until the lapse of 24 months from providing the Credit Facility. The loans shall bear variable interest at the Bank of Israel rate plus a margin agreed between the parties. Interest shall be paid quarterly;

(2) Long term loans to be repaid in equal semi-annual installments from the date of extending the loan and up to the lapse of 7 years from providing the Credit Facility. The loans shall bear variable interest at the Bank of Israel rate or fixed interest at such rate as agreed between the parties, at the Company's

selection, plus a margin to be agreed between the parties. Interest shall be paid quarterly. Interest shall be paid quarterly.

The Company shall pay the Lender on each of the interest payment dates, a non-utilization fee at a rate agreed between the parties out of the non-utilized part of the Credit Facility.

Provision of loans is contingent upon the Company's compliance with its representations and warrants under the agreement, non-occurrence of default events, and absence of legal preclusion on the Lender to extend the loan.

The agreement is not secured by collateral and includes acceptable conditions and obligations including a limitation of creating pledges subject to certain exclusions, limitations on distribution of profits, financial covenants and events of default that generally apply also in respect of the Debentures (Series 8-12) of the Company, as set forth in the annex to Chapter B of this Report, with certain changes that are immaterial and an early repayment option, under certain conditions.

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

18.3.5. On December 31, 2019 and December 31, 2020, the balance of loans provided to the Group (including current maturities) was NIS 400 million, and NIS 188 million, respectively. As of December 31, 2021, the Company has no loans.

18.4. <u>Restrictions on procuring credit</u>

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

Restrictions by virtue of agreements with financial corporations – The restrictions set forth in the Company's credit facility agreement with an institutional group are similar to the restrictions set forth in the Company's Debentures, with certain changes. See the annex to Chapter B of this Report.

As of the date of approving the annual financial statements and as of the Report publication date, the Company is in compliance with all financial covenants and other restrictions described above.

18.5. Guarantees and charges

For details of the bank guarantees the Company has provided, see Note 32(b) to the Financial Statements.

18.6. Credit rating

As of the publication date of this Report, the Company's Debentures (Series H) to (Series L) are rated ilA \ stable by Standard & Poor's Maalot Ltd. ("**Maalot**") as of August 9, 2021. For more details regarding the ratings, see Section 14 of the Board of Directors' Report.

18.7. Raising additional sources

On April 20, 2021, the Company published a shelf prospectus in Israel. The shelf prospectus allows the Company to offer and sell various securities including debt and equity in Israel. At this stage no resolution has been adopted for performing any issue, nor with respect to the scope, conditions and timing thereof, if at all, and there is no certainty that such issue shall be performed.

The Company estimates that the Group's liquidity and capital sources shall be sufficient for financing its current cash need, including investments and repayment of debts in the forthcoming year.

The Company's above estimate is deemed forward-looking information, as such term is defined in the Securities Law. The Company's estimate is based on many factors, including its revenues, the timing and size of investment in marketing and customer retention, expanding its sales and marketing activity and the timing of launching new products or improvements to existing products, the timing and size of investment in

networks and services, including Cellcom tv, the Group's Internet infrastructure, an investment in IOT, investment in frequencies and any decision to resume dividends distribution. The Company's estimate could not materialize, materialize only in part, or materialize differently than the Company estimated, should there be any change in the above-described factors.

19. Taxation

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

20. Environmental risks and management thereof

General

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

20.1. Non-ionizing radiation

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

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

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

20.2. Constructing cell sites

The regulation of cell site deployment, the manner of construction and the required approvals, are mostly governed by the Radiation Law, the Planning and Building Law, and National Zoning Plan 36. The regulation of deployment of wireless access facilities, which are smaller-scale cell sites, is mostly regulated in the Communications Law and in the Radiation Law. For details regarding the provisions of the Planning and Building Law in connection with deployment of cell sites and access facilities, see Section 21.4 below.

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

The construction permit is valid for no more than three months, unless extended by the Radiation Commissioner at the Ministry of Environmental Protection ("**Radiation Commissioner**"), and the operation permit is valid for five years, subject to annual radiation surveys for the other facilities or sites, carried out by third parties authorized by the Radiation Commissioner. The construction and/or operation permits set forth the different terms that govern the construction and/or operation of the sites. The Group obtains construction and operating permits from the Radiation Commissioner in the relevant timeframe for its cell sites and transmission facilities. In addition, cellular operators, including the Group, must provide current data regarding capacities at each of their cell sites or other transmission facilities to the Radiation Commissioner. The Group submits the required data to the Radiation Commissioner. For details with respect to obtaining the permits for the transmission facilities required under the Planning and Building Law, see Section 21.4 above.

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

Any amendment to the Radiation Law or to the Planning and Building Law significantly prohibiting or limiting the issuance of permits under such laws could, *inter alia*, limit the Group's ability to construct new site (and if it applies to its current sites, could limit the Group's ability to renew the operating permits for many of its current sites), adversely affect the Group's current and future networks, especially in urban areas, and could have an adverse effect on the results of its operations.

20.3. End-user equipment

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

The Consumer Protection (Details regarding Non-Ionizing Radiation from Cellular Phones) Regulations, 5762-2002 ("**Radiation Regulations**") stipulate how customers are to be informed of this. The Radiation Regulations and the pamphlet issued pursuant to them state maximum permissible radiation levels from cellular telephones, measured according to the SAR level.[18] The manufacturer measures the SAR levels for each model prototype. To the best of the Group's knowledge, the end-user equipment models it markets comply with required SAR levels according to law. Nevertheless, the Group does not perform SAR examinations of the end-user equipment, and it relies on publications by the manufacturers for each model. The Group obtained certain permits from the Ministry of Communications and the Standards Institute in connection with importing end-user equipment. The permits require the model to comply with all applicable standards, including the SAR levels. The Group publishes details regarding the SAR levels from cellular phones on its website, and it refers to recommendations by the relevant authorities on the precautionary principle rules for using cellular phones.

20.4. Material events or matters relating to environmental protection

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

20.5. Material legal or administrative proceedings relating to environmental protection

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

As of the Report date, to the best of the Group's knowledge, it is not exposed to material legal or administrative proceedings relating to environmental protection, except as described above.

20.6. The Group's environmental risk management policy

The Group implements a work procedure with respect to procurement of cell sites and site licensure, an environmental protection licensing procedure for cell sites and periodic radiation tests, conducted by the Group among others to verify compliance with applicable standards under the law. As set forth in the procedures, the Group has appointed supervisors for implementation thereof.

On the performance of periodic radiation tests and the online submission of current data to the Commissioner on the capacities in each other cell site or Group transmission facilities, see Section 21.4 below.

21. Limitations and control on the Group's activity

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

General

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

In addition, the Group's activity is subject to the laws that govern its relationships and manner of engagement with its customers. These provisions include, *inter alia*, the

Consumer Protection Law, as well as specific provisions to its area of activity, as stated below.

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

21.1. Communications law

(1) The Communications Law – Under the Communications Law, providing cellular services, fixed-line telephone services, international telephone services, and connectivity and infrastructure services, requires a license. For details regarding the fixed-line telephone service license and the unified licenses granted to the Group under the Communications Law, see Section 21.3 below.

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

In January 2022, the Knesset approved the Bill for the Communications Law (Telecommunications and Broadcasting)

(Amendment no. 76) (changing the regulatory arrangement in the telecommunications area), 5781-2021, whereby the licensing duty for most actions of establishing and providing communications services shall be cancelled. The area shall be regulated through a "general permit", whereby parties that wish to provide basic services may do so subject to certain terms and to prior registration with the Ministry of Communications. Regulation of activity under the general permit shall be carried out by way of retroactive supervision and enforcement. Key services, such as cellular infrastructure, fixed-line infrastructures, operating an access network with a minimum number of users, etc., shall still be subject to a license. In addition a license shall be required for providing services by a local authority, municipal corporation etc. The law shall take effect in October 2022.

In the estimates of the Company, the law is expected to lower barriers to entry for competitors and could increase competition in the market. Also, the change could create gaps between regulation that applies to license holders (including consumer protection regulation) and regulation that applies to competing service providers that operate pursuant to the permit, and gaps in the level of regulation and enforcement on different competitors, but it could include changes that make it easier for the Group to adopt technological changes and new business models. Such gaps could affect the Group's competitive position.

The Group's above estimate is deemed forward-looking information, as defined in the Securities Law. The Group cannot estimate whether such changes shall materialize and to what extent they shall affect its operations. The Group's estimate could not materialize, materialize only in part, or differently than the Group estimated, because such estimate is affected by factors outside the Group's control, and among others, is subject to the influence of factors described above and any change occurring thereto, and to risk factors in the Group's area of activity, as set forth in Section 26 below.

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

21.2. Rate regulation

The interconnectivity fee rates between communications operators are regulated (meaning, payments to cellular operators or domestic operators or international operators, for completing a call on a network belonging to another operator, or for forwarding SMS messages between cellular operators). In September 2021, the Ministry of Communications published a hearing about changing interconnectivity rates for calls ending on the networks of a cellular operator and domestic operator, whereby it is proposed to set forth an outline in regulation for generally reducing the maximum interconnectivity rates for calls, in two tranches over 36 months from the effective date at the end of which each operator shall bear its own costs and in general there shall be no transfer of payment for interconnectivity with respect to call minutes. Regarding international calls it is proposed to remove supervision from the completion segment of incoming international calls as of the effective date and on outgoing international calls it is proposed to apply the aforementioned gradual reduction outline.

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

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

According to the Communications Law, if the guest and host operators do not agree on the terms for providing hosting services, whether by domestic MNO roaming or MVNO hosting services, the Minister of Communications can interfere with the terms of the agreement, including by setting the price for the services. Terms or consideration not beneficial to the Group could have a material adverse effect on the results of its operations.

The Ministry of Communications may also provide instructions regarding communications service rates in the event of an unreasonable payment or a payment that raises concern of harm to competition. Such instructions could be based on a calculation of cost plus a reasonable margin, or based on reference points of comparison with other license holders, similar services, or connectivity rates in other countries. The Ministry of Communications is also authorized to issue orders on separating payment for a particular telecommunications service from the payment for a cluster of services. The Group's licenses also stipulate the types of payments operators are entitled to charge, and specific services are subject to specific regulation.

The Group's above estimate is deemed forward-looking information, as defined in the Securities Law. The Group cannot estimate whether regulators shall intervene in such way, and the extent of its effect on the Group's activity. The Group's estimate could not materialize, materialize only in part, or materialize differently than the Group estimated, because this estimate is affected by factors outside the Group's control, and among others, is subject to the influence of the factors described above, and any

change thereto, and to risk factors in the Group's area of activity, as stated in Section 26 below.

21.3. The Group's communication licenses

In recent years, various changes to the Group's licenses came into effect, having a material effect on its conduct, investments, and expenses, including the Group's conduct vis-à-vis its customers, its investments in its communication networks, and increased competition in the market.[19]

(1) General license to provide radio telephone mobile services

The Company operates in the cellular sector pursuant to the General License to Provide Radio cellular Telephone Mobile Services by the Cellular Method (RTM)[20] ("**Cellular License**"), that is valid until February 1, 2032, and that sets the terms, duties (such as the duty to provide cellular services to any interested subscriber in the State of Israel), and limitations on the Company's activity, its officers, and shareholders holding specific rates of the Company. Should the Company comply with the provisions of the Cellular License and the provisions of the law, and invests in improving its service and cellular network, the Ministry of Communications may renew the license by ten more years at a time. The Company obtained a license to provide cellular services in Judea and Samaria, valid until 2022, which includes, and in general, the terms of the Cellular License.

With respect to the license under which Golan provide services, see the unified license section below.

It is uncertain that the Company's Cellular License shall be renewed by the Ministry of Communications. If it is renewed, it could be renewed at inconvenient terms for the Company. The Ministry of Communications has changed the terms of the Cellular License before and could change them again without the Company's

[19] For details on the bill for changing the regulatory arrangement in the communications market see Section 21.1(1) above.

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

consent, thus limiting its ability to manage its business and impacting the results of its operations.

These are the main provisions of the Cellular License:

- The Minister of Communications and the authorized entity under the Telegraph Ordinance can revoke, suspend, or limit the Company's Cellular License, *inter alia*, in these instances: a change to the license is required in order to guarantee the level of services provided thereunder; breach of a material term of the license; one of the Company's executives or directors is convicted of an offense involving moral turpitude and continues holding office; the aggregate equity of the Company, together with the aggregate equity of its shareholders each holding 10% or more of its share capital falls below $200 million[21]; am officer of the Company or a person holding more than 5% of the means of control in the Company is not entitled to hold more than 5% of the means of control in Bezeq or another cellular operator in Israel, directly or indirectly, or act as an officer in one of the Company's competitors (subject to exceptions that require the Ministry of Communications' prior consent);
- The total holdings, directly or indirectly, of the founding shareholders or their alternates (as defined in the license) shall not fall below 26% in each of the means of control in the Company (for this purpose, "means of control" means the voting power at the general meeting of the Company or the corresponding organ in another corporation, the right to appoint a director or general manager, the right to participate in the profits of the corporation, and the right to participate in the Company's surplus assets after settling its debts in liquidation); the total holdings, directly or indirectly, of Israeli entities (as the

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

term is defined in the Cellular License),[22] that are considered founding shareholders or their alternates shall be no less than 5% of the total issued share capital and each of the means of control of the Company;[23] at least 10% of the Company's directors were appointed by Israeli entities; and most of the Group's directors are Israeli citizens and residents;

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

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

- Acquisition (by an individual himself or together with a relative or another person acting with him on a regular basis), or the transfer, directly or indirectly, in a single transaction or more, of means of control at the rate of 10% or more in the Company or which results in transfer of control in it, including by the creation of a charge by a shareholder of the Company or by a shareholder in a related party thereof, whereby realizing the charge shall cause a change of ownership to 10% or more of any means of control in the Company, requires the prior consent of the Minister of Communications;[24] for the purposes of the Cellular License, "control" means the ability to direct the

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

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

[24] Prior consent to creating such an encumbrance is unnecessary if the encumbrance agreement stipulates that the encumbrance may not be exercised without the Ministry of Communications' prior consent. The Group's other licenses include similar prohibitions.

Company's activity, directly or indirectly, including any ability according to the Company's articles or a written or oral agreement or the possession of means of control in another corporation, and excluding ability deriving solely from filling the position of director or other functionary of the Company.

- The Company must act in accordance with the instructions of the Israeli Security Agency, which could require officers and certain functionaries to be Israeli citizens and residents and have security clearance. Furthermore, the Minister of Communications is entitled to appoint a state employee with security clearance to serve as an observer at meetings of the board of directors and its committees. If the Government of Israel finds that the service the provided by the Company is an "essential service", the Prime Minister and the Minister of Communications may impose other restrictions, including an increased demand for Israeli ownership of Company shares.
- Throughout the activity period, the Company must have agreements with a cellular network equipment manufacturer, including, *inter alia*, a knowledge transfer agreement and an agreement to guarantee a supply of spare parts for the network equipment for at least seven (7) years; the Group must work to obtain interconnectivity between the network and other public communications networks in Israel, at equal terms, without discrimination, and to provide Hot Mobile and Marathon with domestic roaming services; the Company must avoid expressing a preference in providing infrastructure services to license holders that are considered companies with a link (as such term is defined in the relevant regulations) over other license holders.
- The license details the types of payments the Company may charge from subscribers, procedures, and certain subscriber billing and collection procedures and requirements, mechanisms, and rules for setting and raising the rates, and reports the Group must notify its customers of before changing

the rates. The license also authorizes the Minister to interfere with the rates in certain instances.

- The license requires the Company to meet a minimal customer service level, including customer service call centers, maintaining a certain service level for the network (both in terms of coverage and in terms of performance), protecting the privacy of service recipients, and certain restrictions and requirements on the process and documentation of sales and marketing to Company customers.
- The license sets restrictions on selling, renting, or mortgaging the assets used to perform the license without the prior consent of the Minister of Communications.
- Under the license, the Group must procure an insurance policy to cover its activity in the cellular area. The license also includes provisions on the Group's statutory liability for any loss or damage to any third party, resulting from the establishment, existence, maintenance, and operation of its cellular network. The Group also agreed to indemnify the State for any financial liability imposed on the State in the event of such a loss or damage. To secure the Group's undertakings under the license, the Group provided a bank guarantee in favor of the Ministry of Communications. If the Cellular License terms are violated, the guarantee can be forfeited.
- The Company must meet these terms as well: Adopting a business continuity plan and a disaster recovery plan and a plan for managing defense against cyberattacks.
- The Group must submit information and reports to the Ministry of Communications at the Ministry's request and detailed annual reports on various aspects of the Group's activity.

The Joint Corporation (as defined in Section 23.1 below) has a special license to provide radio cellular infrastructure services to cellular operators, including similar provisions to those of the

Cellular License, on managing, establishing, operating, and maintaining the radio cellular network.

(2) The Unified License

The Group provides Internet services (connectivity and infrastructure), fixed-line telephone services, international call services, and access point services to the network, under a unified license.[25] This license is in effect until 2026, but the Ministry of Communications can extend it by additional periods of up to 10 years. The terms of the unified license require the Group to deposit a bank guarantee with the Ministry of Communications. In general, the unified license provisions are similar to those of the Group's Cellular License, as described above in Subsection (1), subject to certain changes, including the requirement for Israeli entities to hold at least 20% of the Group's share capital. However, the Minister of Communications may waive this demand if the holder of the unified license for telecommunication services is controlled by the holder of a general license (which applies to the Group).

Golan operates under a unified general license to provide telecommunication services dated August 26, 2020 ("**Golan's Unified License**"), the terms of which are generally similar in essence to those of the unified license (and on the relationship with customers, including similar terms to those of the Group's Cellular License). The license is in effect for three years, starting on the license grant date.

Golan Telecom International Ltd. ("**Golan International**"), the entire share capital of which is held by Golan, holds another unified license to provide international call services. When the Group acquired Golan, this license was modified whereby it is valid for a period of 3 years from the license amendment date.

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

[25]The current unified license replaces multiple licenses to provide the services that the Group held before.

The Group also has another license to provide fixed-line communication services: A special license to provide transmission services and domestic data communications (valid through May 2026) and licenses corresponding to the unified licenses, as described above, for Judea and Samaria (for the license to provide telecommunication services granted to the Cellcom Partnership, valid until 2026, and for the license to provide international calls granted to Golan International, valid until 2023). These licenses include essentially similar terms to those of the above-described Cellular License.

Should the Group fail to comply with the license requirements, it could face significant sanctions, including having its licenses suspended or revoked. Also, according to the provisions of the Communications Law, the Ministry of Communications may impose financial sanctions on the Group for violations of the Cellular License or the Communications Law.[26]

In July 2019, amendments were made to the Group's licenses and to the Consumer Protection Law, regulating call center response, including measurable response time parameters. These amendments forced the Group, *inter alia*, to increase staff at call centers and invest in supportive equipment and technology, which resulted in higher wage expenses for the Group.

In February 2022 the Ministry of Communications published a hearing about the transfer of *kosher* lines. In the framework of the hearing the Ministry of Communications is proposing to cancel the kosher floors and the link between a kosher device and a kosher number, but at the same time also allow any subscriber who is interested to purchase kosher service from the communications company it wishes to join. The Company is learning the significance of the proposal in the hearing. In light of the unique character of the

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

public of kosher subscribers and the many voices expressed by such public to cancel said hearing proposal, implementing the hearing proposal could lead to desertion of kosher subscribers and impact of the Company's results. At this stage the Company cannot estimate the impact on the results of its activity, should the hearing proposal be approved.

The Group's above estimate regarding the results of implementing the hearing proposal regarding kosher lines is deemed forward-looking information, as defined in the Securities Law. The Group's estimates are based on its experience over the years with the public of kosher subscribers and on said public's response to the hearing. Such estimate could not materialize or materialize only in part, as it is affected by factors outside the Group's control, including the regulator's decision, conduct of the Group's competitors and the response of the public of kosher subscribers, and to risk factors in the Group's area of activity, as stated in Section 26 below.

21.4. Mobile communication provisions

Construction of cell sites

(1) General

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

Installing cell sites requires permits from various government entities and related entities, including obtaining a building permit under the

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

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

In November 2021 legislative amendments were enacted under the Economic Policy Law, 5782-2021 (Arrangements Law) with respect to promoting the deployment of advanced communications infrastructure in Israel and reducing exposure to non-ionizing radiation and in such framework the existing regulatory arrangement was changed with regards to building permit exemption for establishing, replacing or adding to certain cellular sites and including cellular sites in the definition of National Infrastructure in order to ease the process of deploying communications infrastructure (hereinafter: "**2021 Permit Exemption**"). There is no certainty with respect to the manner of implementing the legislative amendments, including by the various authorities, and therefore at this stage it is impossible to estimate the impact of the legislative amendments on the Company's activity.

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

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

Legal proceedings are pending against the Group (criminal and administrative) in the framework of which claims were raised regarding unlawful operation of a small number of the Group's cell sites, due to alleged absence of permits according under the Planning and Building Law, or for construction allegedly in deviation from the permit.

The Group's estimate on difficulties in obtaining permits and/or establishing permit exempt-sites and the possible harm to the cellular network quality and coverage is deemed forward-looking information, as defined in the Securities Law. The main facts and figures the Group used as a basis for the above estimates are its experience in obtaining building permits and permits from the Radiation Commissioner over the years, its experience in finding alternative locations for sites, and the difficulties this involves. These estimates could not materialize or materialize only in part, because they are affected by factors outside the Group's control, including legislative interference or intervention or adjudication that differs from that known as of the Report date, and they are also subject to the effect of risk factors in the Group's area of activity, as stated below in Section 26.

(2) Building permits

National Zoning Plan 36

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

In November 2018, the Supreme Court found that it is possible to charge a betterment levy for building permits issued based on a national zoning plan. Such decision limits the Group's ability to object to claims directed against it with respect to paying betterment levies on cell sites constructed with a permit under National Zoning Plan 36, and it could significantly increase the cost of constructing cell sites.

According to the conditions of the 2021 permit exemption, approvals must be obtained for sites established under exemption according to the permitting plan, such as National Zoning Plan 36, however there is no need to obtain a permit from the local committee.

If changes are made to National Zoning Plan 36, including additional limitations and requirements to and on the process of constructing and operating cell sites, this could have an adverse effect on the Group's ability to construct new cell sites, make the site licensing process more cumbersome and expensive, have an adverse effect on the Group's current network, and delay its future distribution.

The Company's above estimates are deemed forward-looking information, as such term is defined in the Securities Law. These estimates could not materialize, or materialize differently, insofar as

legislative interference or different adjudication occurs than that known as of the Report publication date.

Building permit exemptions

Wireless access facilities are exempt from obtaining a building permit if they are constructed according to the terms of the Communications Law and Section 266C of the Planning and Building Law and its regulations (the "**Exemption**"). The Group relies on an exemption from a building permit for approximately 33% of the cell sites it constructed, especially the Exemption for wireless access facilities.

In October 2018, the Planning and Building (Installing a Wireless Access Facility for Cellular Communication) Regulations, 5779-2018 were enacted, setting forth rules regarding processes for construction, making changes and replacement of wireless access facilities, which are exempt from obtaining a building permit. The regulations reflect the restrictions formerly established by the courts on the construction of access facilities, and include restrictions on the Group's ability to make changes to and replace wireless access facilities, and a new licensing procedure that reduces the number of new access facilities that the Group may establish, based on the Exemption. The Ministry of Justice also stated its opinion that the Exemption does not apply to wireless access facilities auxiliary equipment and to the construction of access facilities on some rooftops under certain circumstances.

Other legal proceedings relating to the exemption from obtaining a building permit, including with respect to its applicability to certain rooftops, were decided against the Group's position. Also, additional legal proceedings, including the requirement to obtain a permit for deviating use under certain circumstances and the exclusion of auxiliary equipment for wireless access facilities from the exemption from obtaining a building permit, were at times decided according to the Group's position and at times against the Group's position and a final binding decision by the Supreme Court on these matters has not yet been handed down.

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

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

The Company's above estimates are deemed forward-looking information, as such term is defined in the Securities Law. The main facts and figures the Group used as a basis for the above estimates come from its experience over the years and its knowledge accumulated with respect to site construction and licensing. These estimates could not materialize or materialize partially in the event of legislative interference or caselaw that is different than known as of the Report publication date.

The Group supplies repeaters and femtocells for subscribers seeking solutions for weak reception inside structures, some of which require a specific permit, and some require a type permit from the Ministry of Environmental Protection, based on radiation levels. The Group makes sure each repeater works according to the established parameters in the relevant type exemption. It is uncertain whether installing certain types of repeaters and inter-structure micro-sites requires a building permit. Based on the opinion the Group received from its legal advisors, it did not request and did not obtain building permits to install repeaters on rooftops. Note that the repeaters installed on rooftops are a very small part of the total repeaters the Group installed.

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

The Group also constructs and operates microwave facilities in its transmission network, which serve both the cellular network and the purpose of providing fixed-line telecommunication services. Most microwave facility types are exempt from obtaining permits from the Ministry of Environmental Protection because of their low output, or require a general permit for their radiation level. Based on the opinion the Group received from its legal advisors, it did not request and did not obtain building permits to install microwave facilities on rooftops.

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

The Company's above estimates are deemed forward-looking information, as such term is defined in the Securities Law. The main facts and figures the Company used as a basis for the above estimates come from its experience over the years and the knowledge it accumulated in the area of site construction and licensing. These

estimates could not materialize, or materialize partially, insofar as legislative interference or different adjudication occurs than that known as of the Report publication date.

(3) Summary

The Group estimates that the materialization of any of the following factors could have an adverse effect on its business and financial results: (1) a change in legal requirements regarding construction of cell sites in a manner that would make construction more difficult including reducing or revoking the exemption from obtaining a building permit for the facilities used for the Group's networks and/or adding conditions making it more difficult to use the exemption; and (2) changes to National Zoning Plan 36, including additional restrictions and requirements on the process of constructing and operating sites. If one or more of these factors materializes, such could cause, *inter alia,* the following: (i) harm to the continued construction or establishment of networks or dismantling existing cell sites; (ii) harm to the Group's ability to obtain permits under the Radiation Law for its cell site; (iii) harm to the quality and coverage of the Group's networks (especially in urban areas); and (iv) harm to the continued effective marketing of Group services and products, and subsequently - harm to the Group's results.

The Company's above estimates are deemed forward-looking information, as such term is defined in the Securities Law. The main facts and figures the Company used as a basis for the above estimates come from its experience over the years and its knowledge accumulated with respect to site construction and licensing. These estimates could not materialize, or materialize partially, insofar as legislative interference or different adjudication occurs than that known as of the Report publication date.

(4) Indemnity undertaking under the Planning and Building Law

Under the Planning and Building Law, local planning and building committees must request, as a condition for granting a cell site building permit, a letter of indemnification against claims for damages under Section 197 of the Planning and Building Law.[27] The 2021 Permit Exemption also includes a requirement to comply with such provisions. The period in which it is possible to submit claims for damages under the Planning and Building Law is the latter of one year from obtaining the building permit for the site or six months from constructing the site, while the Minister of the Interior is authorized to extend such period. By the Report date, the Group has deposited 430 letters of indemnification as a condition for issuing such building permits.

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

The Group's above estimate is deemed forward-looking information, as defined in the Securities Law, based on the Group's work plan to construct sites in the coming years, and on the Group's knowledge and experience accumulated with respect to finding site locations. The above estimate could not materialize, or they could materialize in part, because of lack of details regarding future claims under Section 197 of the Planning and Building Law, on cellular sites.

(5) Permits under the Radiation Law

The construction of cell sites, access facilities, and other transmission facilities, is governed by the Radiation Law. For details on the

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

provisions of the Radiation Law and the required permits under it, see Sections 20.1 and 21.4(5) above.

(6) Non-ionizing Radiation Information Regulations

Cellular services are provided using end-user equipment that emits non-ionizing radiation. The Consumer Protection (Details Regarding Non-ionizing Radiation from Cellular Phones) Regulations, 5762-2002, contain, *inter alia*, duties to provide information. These regulations and the pamphlet issued under them state among others the maximum permissible radiation level for end-user equipment. For information about the restrictions under these regulations, see Section 20.3 above.

(7) Network and site sharing agreement

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

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

Such Company estimate is forward looking information, as defined in the Securities Law, which is based on the Group's estimates with respect to the scope of future cooperation and the knowledge and experience that the Group accumulated with respect to the establishment of the sites. Such estimate may not materialize or may materialize in part, in light of the lack of information with respect to the scope of use and the affiliated costs.

For details regarding the network sharing and hosting agreement between the Group and Marathon, see Section 23.1 below.

21.5. Provisions in the area of fixed-line communications

(1) Fiber-optic network

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

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

a. Bezeq shall not be subject to universal deployment requirements with respect to deploying fiber-optic infrastructure, rather it shall be granted the option to inform the Ministry with respect to the areas in which it desires to deploy infrastructure within five months of January 1, 2021, and in such areas Bezeq shall be required to provide service to all households within 6 years; Hot shall also not be subject to a universal deployment duty with respect to deploying fiber-optic infrastructure, from the date determined for Bezeq's duty to deploy as set forth in the license. Notwithstanding, in July 2020 the Minister of Communications set a minimum deployment duty for Hot at a rate of 30% and a duty to meet a 1:1 deploying ratio between the periphery and the center of the country, should Hot decide to deploy an ultra-broadband network that is not based on its existing access network;

b. The State of Israel shall conduct tenders for subsidizing fiber-optic deployment by Bezeq's competitors in areas where Bezeq chooses not to deploy fiber-optics ("**Incentive Areas**"), based on the ratio of the number of households in the Incentive Areas and funds in the Incentive Fund (as defined below) to be allocated within the framework of the tenders. In the first three years during which there is an obligation to pay into the Incentive Fund, the Minister of Communications shall be entitled to order that no more than 15% of the households in the Incentive Areas shall be located in certain geographical areas as the Minister may instruct. Bezeq and any corporation linked to it may not participate in tenders. The Minister of Communications may set a reduced tariff for use of Bezeq's existing physical infrastructure in Incentive Areas. In October 2021 an initial invitation was published to participate in a tender for deployment of fiber-optics in Incentive Areas, after Bezeq informed the Ministry of Communications about the areas in which it asks to deploy fiber-optic infrastructure and in February 2022 the

Ministry of Communications published a hearing about reducing the price of deploying fiber-optic infrastructure in Incentive Areas;

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

d. Bezeq and a corporations linked to it are not entitled to deploy fiber-optics in Incentive Areas for 5 years from the date of determining the deployment duty in the winner's license, except deployment for business customers to whom they are entitled to deploy infrastructures also during that period. However, Bezeq is entitled update its original deployment undertaking by up to a rate of 10%, so long as funds in the Incentive Fund have not yet been allocated to the relevant Incentive Area;

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

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

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

(2) Development of the Wholesale Market

In 2012, the Ministry of Communications published a policy document regarding a Wholesale Market for fixed-line communication services, the main points of which are:(1) establishing an effective Wholesale Market for communication connectivity services; (2) gradual cancellation of the structural separation in the Bezeq and Hot groups and replacing it with accounting separation and changing the method of control over Bezeq’s retail rates, determining maximum rates. This instead of the current method that sets fixed rates depending, as a rule, on the development of the Wholesale Market, competition in the market, and with respect to television services – the reasonable option to supply a basic package of OTT services by suppliers that do not have a national fixed-line communication infrastructure.

As stated above in Section 8.1, in 2015, the Wholesale Market for Internet infrastructure in Israel was officially launched, and to a certain degree, also in the area of using certain physical infrastructure by operators that do not own infrastructures. The maximum wholesale rates for fixed-line communication services to be provided by Bezeq (on its copper-wire infrastructure) were set in the Communications (Telecommunications and Broadcasting) Regulations (Use of the Public Telecommunications Network of a Domestic Operator), 5775-2014, and the tariffs for internet infrastructure services on Bezeq’s fiber-optic network were set in August 2020 under the Communications (Telecommunications and Broadcasting) Regulations (Use of the Public Telecommunications Network of a Domestic Operator) (Amendment no. 2), 5780-2020.

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

Furthermore, the Wholesale Market should have featured wholesale fixed-line telephone services from May 2015. To the best of the Group's knowledge, as of the Report date, the service has not yet been used within the Wholesale Market. A reduction Bezeq's fixed-line telephone service rates, in accordance with the Ministry of Communications' decision in December 2020 (as set forth hereunder) shall significantly reduce to nearly eliminating the economic profitability of buying wholesale telephone services from Bezeq.

In June 2020, the Ministry of Communications adopted Hot's proposal to voluntarily reduce the wholesale rates for Internet infrastructure service on its network, including a mechanism for updating rates. In January 2022 the tariffs for 2022 were updated.

In February 2020, the Ministry of Communications announced a retrospective reduction of the wholesale services rates it set in the past for using Bezeq's copper wire infrastructure and a rate updating mechanism for 2019 and 2020. This reduction led to reimbursement of the amounts the Group paid to Bezeq, and to offsetting additional amounts in 2020 against payments paid or payable to Bezeq for use of the copper wire infrastructure, totaling NIS 31 million. In December 2020, the Ministry of Communications announced the annual rate update for using Bezeq's copper wire infrastructure in the Wholesale Market. Because rates are updated according to a formula taking into account the number of subscribers and traffic on Bezeq's network in the previous year and assumptions regarding on the forthcoming year, as a result of the increased demand for Internet traffic, and especially considering the Covid-19 pandemic, the wholesale rates on Bezeq's network have been significantly reduced for 2021, however according to such formula, in January 2022 the tariffs for 2022 were updated and increased compared to the tariffs for 2021.

In August 2020, the Ministry of Communications decided that for the supply of Internet infrastructure services on Bezeq's fiber-optic infrastructure, Bezeq shall be paid fixed maximum amounts (regardless of traffic), a payment of NIS 71 for the wholesale fiber infrastructure in total rate of 550 mb/s and NIS 79 for fiber infrastructure at a total rate of 1100 mb/s per month. These tariffs significantly exceed the maximum rates set for Bezeq for the Internet infrastructure service using its copper wire infrastructure and the rates the Group pays IBC.

In 2014, the Ministry of Communications published a hearing that was expanded in 2017 and has not yet been concluded, proposing a method for checking whether Bezeq and Hot reduce their retail rates and thus reducing the margin between wholesale rates and retail rates for certain fixed-line communication services ("margin squeeze"), to reduce the margins for operators that do not own and infrastructure thus excluding them from the market.

With respect to Bezeq's duty not to charge Internet providers for the consumption of a certain volume of connectivity services, see Section (3) below.

(3) Regulation of OTT multichannel television services

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

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

In July 2021, the report of the Committee for Examining Super-Regulation in the Area of Broadcasting, chaired by Mr. Roy Folkman (the "**Committee**") was published, which included, *inter alia*, the following main recommendations: (1) establishing a unified regulator for the area of broadcasting; (2) applying regulation gradually to audio-visual content suppliers the activity of which is designated mostly for the public in Israel according to a scale of total annual revenues from activity as content provider. A content provider with annual revenues less than NIS 300 million shall be excluded from regulation save for provisions for preventing exclusivity in sports. A content provider with annual revenues between NIS 300 million and NIS 600 million shall be required to obtain a license and shall be subject to a gradual duty to invest in quality productions (4% of the revenues in the first three years and 6.5% of the revenues thereafter) and duties in the areas of child protection, accessibility of broadcasts for people with disabilities, and ethics. A supplier with revenues exceeding NIS 600 million shall also be subject to expanded duties to invest in quality productions (6.5% of revenues) and duties in the area of broadcasting consumerism; (3) imposing a duty on international content suppliers with revenues from activity in Israel exceeding NIS 300 million to invest in local content in various manners and at scope to be later defined; (4) provisions on prohibiting exclusivity in sports broadcasting and sports content procurement; (5) reducing micro-regulation and regulatory interference. In a number of issues the Committee did not reach final conclusions including cancelling the prohibition on content providers to be owners of news companies, and in this respect the Committee asked for additional input for continued examination by the Ministry of Communications. In September 2021, the Minster of Communications decided to adopt the Committee's recommendations in principle subject to certain changes and adjustments without material change on the issues affecting the Company's activity. The Minister ordered the commencement of staff work for anchoring the recommendations in primary legislation, secondary legislation and guidelines, concurrently with completing work on certain issues the Committee did not complete and bringing them for the Minister’s decision, so that the broadcasting market reform would be completed within one year at the most. The Committee’s recommendations are subject to legislative processes and their final version, should they be adopted, could be materially different. In the Company’s estimates, such changes, if adopted, are not expected to have a material impact on the Group’s results.

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

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

The Group's estimates regarding the possibility and the potential impact of legislation in the OTT multichannel television area are deemed forward-looking information, as defined in the Securities Law, which is uncertain, since it is affected by various factors outside the Group's control, and is subject, inter alia, to the nature of the legislation to be adopted, as described above, regulatory decisions and other factors, including the realization of all or some of the risks listed among the risk factors in the Group's area of activity, as stated below in Section 26.

(4) With respect to building permits, an exemption from building permits and the applicability of the Radiation Law to communications facilities constructed as part of fixed-line communications networks, see Section 21.4 above.

21.6. Consumer protection legislation

The Group's activity is subject to legislation that regulates the relationship and manner of engagement between the Group and its subscribers.[28] As such, the Group's activity is governed by the Consumer Protection Law and its regulations. Changes to consumer protection legislation regularly affect the activity of the companies of the Group. In recent years, various amendments to the Consumer Protection Law and its regulations were adopted, among others regarding the cancellation of transactions even after commencement of service; disconnecting from ongoing services; the manner of updating rates for a limited term; provisions on reimbursing funds collected from subscribers not in accordance with the engagement agreement plus the fixed handling fee under the law; restrictions on debt collection processes; the maximum duration of wait for human response; and expanding applicability of regulation regarding technician visits to

[28] In addition to the provisions in this regard set forth in the Group's licenses (see Section 21.3 above).

additional instances. Furthermore, there is a variety of proposed amendments to the Consumer Protection Law on the Knesset's agenda, that could affect, *inter alia*, the terms of engagement and conduct of companies of the Group vis-à-vis their subscribers.

21.7. Privacy protection law

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

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

21.8. Provisions in the area of labor law

The Group is subject to Israeli labor law in connection with terms of employment, including the Minimum Wage Law, 5747-1987; Severance Pay Law, 5723-1963; Annual Leave Law, 5711-1951; Hours of Work and Rest Law, 5711-1951; the Law for Increased Enforcement of Labor Laws, 5772-2011, and various expansion orders regarding fringe benefits and pension contributions Group employees are entitled to.

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

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

The Company's estimate regarding the possibility and impact of said legislation is deemed forward-looking information, as such term is defined in the Securities Law, which is uncertain, as it is affected by multiple factors outside the Group's control and subject to legislative arrangements to be formulated, changes in the number and mix of Company employees and other changes in the employment market, as well as additional factors, including the realization of all or some of the described risk factors in the Group's area of activity, as described in Section 26 below.

21.9. For details regarding price control for products and services offered by the Group, above see Section 21.2above.

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

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

21.11. Electricity supply license – In July 2021 the Company obtained a license to supply electricity without means of production from the Electricity Authority. The license shall serve for supplying electricity to customers with a continuous gauge (can be read remotely) in the framework of a joint venture of the Company and Meshek Energy –

Renewable Energies Ltd.[29] The license if for 5 years. For purpose of providing the service the Company is required to engage with system administrator for procuring the services necessary for the supply activity.

22. Material agreements

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

22.1. Agreement for investment in IBC – For details regarding the Company's investment in IBC, including the partnership agreements with IIF, the IRU purchase agreements, and services agreement with IEC, see Section 6.17.1 above.

22.2. Agreement for Hot's investment in IBC – For details regarding Hot's investment agreement with IBC, including the agreement to purchase IRUs and the service agreement, see Section 6.17.2 above.

22.3. Agreement for the acquisition of Golan – For details regarding completion of the transaction for acquiring Golan, see Note 7 to the Financial Statements.

22.4. Engagements with vendors – For details regarding the Group's engagements with material vendors that the Group depends for purchase, operation, and maintenance of communications equipment, information systems, content, and end-user equipment, see Section 15 above.

22.5. Debt and credit agreements – For details regarding the Company's credit agreements that it uses to finance its activity, and for details regarding the Debentures issued by the Company, see Section 18 above.

[29] Joint venture for supplying electricity to private and business customers (that have a smart electricity gauge) exclusively and for supplying ancillary products and services, including in the area of energetic efficiency. Cooperation between the parties was defined until August 2023 and can be extended by mutual agreement. The Company intends to consider sale of additional ancillary products and services in the electricity market.

22.6. Collective employment agreements – For details regarding the Group's collective employment agreements with the workers unions and the Histadrut, see Section 14.6 above.

22.7. Network sharing agreement – For details regarding network sharing agreement with Marathon, see Section 23.1 below.

23. Cooperation agreements

23.1. Network sharing agreement with Marathon[30]

Sharing agreement for the 4G and 5G Networks and hosting services for 2G and 3G Networks with Marathon[31], came into effect in April 2017, and updated in March 2022 (the "**Completion Date**"), in the framework of Marathon's creditors' arrangement (the "**Sharing Agreement**"). Marathon started operating in the cellular market in April 2018.

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

a. Arrangements for using the parties' relevant frequencies; management and operation using a joint corporation (the "**Joint Corporation**")[32]; arrangement of the parties' holdings in the shared network's active components; arrangements for future investments in the shared network's active components; arrangements for an indefeasible right of use (IRU) of the active components, of each sharing party towards the other sharing parties; the grant of an indefeasible right of use (IRU) from the Group to Marathon and to the Joint Corporation with respect to the shared network's passive components; arrangements for services

[30] For additional network sharing agreements that ended in 2020, with the acquisition of Golan by the Group, see Section 23.1 of Chapter A to the 2020 Report dated March 17, 2021.

[31] For description of the dispute and legal proceedings, preceded the update of the Joint Corporation, see Note 31D of Chapter C to this Report as well as section 23.2 of Chapter A to the 2020 Report and the immediate reports published by the Company on May 20 2021, August 12 2021, November 16 2021, February 17 2022, February 21 2022, February 23, 2022 and March 9 2022.

[32] According to the Ministry of Communications decision dated August 26, 2020, Cellcom and Marathon shall hold the Joint Corporation in equal parts. As of the Report date, the change in holdings of the Joint Corporation was not performed yet, whereby formally, each of Cellcom, Golan, and Marathon holds 33.3% of it.

the Group shall provide the Joint Corporation as a subcontractor; arrangements for the parties' separation; and arrangements for adding an additional joint party. The Sharing Agreement includes Marathon's undertaking to obtain from the Ministry of Communications an amended cellular license and allocation of frequencies under the 2020 Tender, and to pay the license and frequency fees thereunder to the Ministry of Communications.

b. The agreement period – The agreement is made for 10 years from the Completion Date. This period shall be extended by additional periods, unless one of the parties announces otherwise. For circumstances allowing Marathon to shorten the period of the agreement to seven years, see subsection (d) below.

c. The consideration – The annual consideration to be received by the Group during the agreement period within the framework of the Marathon Agreement includes: (1) payment for the IRU on the passive components of the shared network; (2) payment for Marathon's share in the cost of the active components of the shared network from the Completion Date; and (3) payment for participation in the regular operating costs of the shared network and the Group's 2G and 3G networks, according to the number of Marathon subscribers and their use of the shared network and of the Group's 2G and 3G networks. The Company estimates that the total consideration from the Sharing Agreement, including participation in purchasing equipment for the shared network, shall amount to NIS 400-600 million over the period (10 years). In the Company's estimates, discounts as set forth in subsection (d) below, if granted, do not materially change the Company's estimates with respect to the total consideration from the Sharing Agreement, while shortening the agreement, if shortened, would proportionally reduce the total consideration.

d. Call option, loan option and put option – Clear Communications Holdings Limited Partnership – the controlling shareholder in

Marathon after completing Marathon's creditors' arrangement[33] ("**Clear**") was granted the possibility to obligate the Company to purchase all (100%) of Marathon's share capital within a period of three to five and a-half years of completing the transaction, in consideration for NIS 130 million (that could increase in certain instances) ("**Call Option**"). Should such Call Option, which is contingent upon obtaining regulatory approvals from the Ministry of Communications and the Director General of Competition, not be exercisable, Clear shall have the option to obligate the Company to provide an interest bearing loan to Marathon in the same amount against collateral as agreed between the parties, and subject to applicable law ("**Loan Option**"). The Company is unable to estimate whether the Call Option shall be exercised, and if so, whether approvals necessary for exercising it shall be obtained and on what terms.

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

Failure to pay the consideration set forth in the Sharing Agreement by Marathon, or termination of the Sharing Agreement could cause

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

material harm to the Group's revenue and harm its financial results. For the Group's revenues from Marathon see Note 31D of the Financial Statements.

The Company's estimates with respect to the Marathon Agreement, including payments thereunder, the possibility of its termination, and its potential impact on the Group, are deemed forward-looking information, as such term is defined in the Securities Law, and are uncertain, as they are influenced by multiple factors outside the Group's control, including: developments in the number of Marathon's subscribers, regulatory and competitive changes, and other factors, including the realization of all or some of the described risk factors in the Group's area of activity, as described in Section 26 below.

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

With roaming agreements, the Group offers outgoing roaming services to its subscribers when they are outside Israel and incoming roaming services to customers of foreign operator when they are in Israel. As of the Report date, the Group collaborates with hundreds of operators in most countries in the world to provide roaming services, based on standard roaming agreements of the GSM Association.[34]

23.3. Passive infrastructure cooperation agreement – In November 2021 the Company executed a frame agreement for expanding passive infrastructure cooperation at cell sites with Pelephone and PHI Networks (2015) Limited Partnership. Expanding cooperation could ease and streamline the activity of constructing cell sites. The entrance into effect of the agreement is contingent upon obtaining regulatory approvals as required by law. There is no certainty that such approvals shall be obtained.

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

The Company's estimates above are deemed forward-looking information, as such term is defined in the Securities Law. The Company's estimates may materialize in a way other than, inter alia, in light of the scope of cooperation, regulatory and competitive changes as well as additional factor, including the materialization of all or some of the risks set forth in the framework of the risk factors in the Group's area of activity, as set forth in Section 26 below.

24. Legal proceedings

The Group is party to legal proceedings filed against it from time to time. As of December 31, 2021, the Company had set aside an amount of NIS 82 million for all the claims against it.

The past few years have been characterized by a large number of motions for approval of class certification filed and approved against the Group in Israel, some in substantial amounts.

As of the Report date, 36 motions for approval of class certification are pending against the Group, and the Group is party to seven class actions that have been approved against the Group.

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

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

Date of filing the claim	Proceeding type, parties, instance of court and original amount of the claim	Details
May 2011	Motion for approval of class certification filed by the plaintiff, Shlomi Cohen, to the District Court in Tel Aviv against the Company, arguing that the Company violated the provisions of its license, by engaging in price discrimination towards its customers. The amount claimed was estimated by the plaintiff at NIS 150 million.	In December 2019, the motion for approval of class certification was dismissed by the District Court in Tel Aviv. In February 2020, the plaintiffs filed an appeal on the decision to the Supreme Court. A hearing on the appeal was held in February 2021, and is awaiting judgment.
February 2013	Class action filed to the District Court for the Central District by plaintiffs Eliasaf Gerst and Vered Sidi, against a corporation that was formerly part of the Group (currently Cellcom Partnership), arguing that it violated the Consumer Protection Law the provisions of its license, with respect to the obligation to end the engagement on time. The class action claim amount was estimated at approx. NIS 72 million.	In January 2017, the motion was partially certified as a class action, with respect to Company customers who asked to be disconnected from the service and were not disconnected within the timeframe stipulated by law, even if the Company mistakenly thought the customer had retracted its disconnection notice. The main argument in the claim whereby the Group is obligated to disconnect the customer immediately upon request, without any attempt to retain the customer, was rejected and in March 2019 an appeal filed by the plaintiffs to the Supreme Court was also dismissed, and the case was sent back down to the District Court.
July 2014	Motion for approval of class certification filed by the plaintiff, the Israel Consumers Council, against the Group, two additional cellular operators and a content provider, arguing that the invoices, the legal proceedings and/or the amounts collected as a result thereof by the content provider are unlawful.	At the end of October 2020, a hearing was held at the District Court on this motion and two additional certification motions concerning the content services, with respect to which the hearing was consolidated. The court recommended that the plaintiff not insist this motion be heard. In December 2020, the plaintiff informed the court that it insists on the motion being heard.

Date of filing the claim	Proceeding type, parties, instance of court and original amount of the claim	Details
	The class action amount was estimated in the amount of NIS 300 million.	
August 2014	Class action filed to the District Court in Lod by the plaintiff Bat El Yavetz alleging that the Company charged a subscriber disconnecting from its services consideration for a billing cycle of a full month, even if the disconnection date was during the monthly billing cycle, in contrast to the provisions of law, the license and the agreement. The amount of the class action was not estimated by the plaintiff.	In April 2018 the claim was certified as a class action and in June 2021 judgment was issued and the Company was obligated to repay members of the represented class approximately NIS 31 million. In September 2021 the Company lodged an appeal to the Supreme Court. Hearing on the appeal was scheduled for November 2022.
November 2016	Motion for approval of class certification filed to the District Court in Tel Aviv by the plaintiff, Tal Butler, arguing unlawful interest collection on end equipment in a loan transaction, in which the effective interest exceeded the amount permitted under the provisions of the Law for Regulating Non-bank Loans and/or without indicating the interest rate in violation of the Consumer Protection Law and its regulations. The claim amount was estimated at NIS 73,237,500.	In the court-hearing held in November 2020, and at the court's recommendation, the plaintiff withdrew the cause of action for interest in excess of the legally permissible amount.
September 2017	Motion for approval of class certification filed to the District Court for the Central District by the plaintiff, law firm Raanan Bashan, against the Company and one of its subsidiaries, arguing that the waiting times at the Group's telephone call	The court referred the parties to mediation proceedings. The parties are during mediation proceedings.

Date of filing the claim	Proceeding type, parties, instance of court and original amount of the claim	Details
	centers do not meet the licensing requirements. The class action amount was estimated at approx. NIS 88 million.	
April 2020	Motion for approval of class certification filed to the District Court in Tel Aviv by the plaintiff, Mor Hirsch, arguing that the Group misled its customers about the content of a package for internet browsing abroad and breached its agreement with them. The class action amount was estimated at approx. NIS 82 million.	The Company has submitted its response to the court.

24.2. <u>Material legal proceedings that ended during the Report period</u>:

Hereunder are details of material legal proceedings that ended during the Report period:

Date of filing the claim	Proceeding type, parties, instance of court and original amount of the claim	Details
Filed in November 2019 and ended in February 2022	Motion for approval of class certification filed by the Israel Consumers Council to the District Court in Tel Aviv against the Company and two additional cellular operators, arguing that the Company unlawfully charged its customers for third party content services. The class action amount was estimated at NIS 400 million.	In February 2022 the plaintiff withdrew from the motion, following the court's recommendation.

Date of filing the claim	Proceeding type, parties, instance of court and original amount of the claim	Details
Filed in July 2020 and ended in November 2021	Motion for approval of class certification filed to the District Court in Tel Aviv by the plaintiff, Daniel Daniel, arguing that the service tariffs were updated contrary to law, license and agreement. The class action amount was estimated at NIS 100 million.	In November 2021 the court approved a settlement agreement for an amount immaterial to the Company.
Filed in January 2021 and ended in June 2021	Motion for approval of class certification filed to the District Court in Tel Aviv by the plaintiff, Haham Itzhak, arguing that the Company does not disclose to subscribers of its repairs service, owning devices sealed against dust and water, that a device going in for repair comes back not sealed, contrary to law and agreement. The class action amount was estimated at above NIS 50 million.	In June 2021 the plaintiff withdrew from the motion.
Filed in February 2021 and ended in November 2021	Motion for approval of class certification filed to the District Court in Tel Aviv by the plaintiff, Aryeh Armon, arguing that the Company did not provide a human response as required by law and the conditions of its license to those contacting the Company's telephone service center. The class action amount was estimated at NIS 150 million.	In November 2021 the plaintiff withdrew from the motion in light of a similar motion for class certification pending against the Company.

In October 2021, Golan filed an administrative petition to the District Court in Jerusalem for revoking a decision by the Ministry of Communications of July 2021 that obligated Golan

25. Goals, business strategy and anticipated development in the forthcoming year

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

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

25.2. **Investment, development and upgrade of the Group's communications networks –** The Group acts to sustain high-quality networks which support advanced solutions which meet customer needs. In this context, in the field of mobile communications, the Group acts to maintain, upgrade and expand the capacity and coverage of its cellular networks within expansion of the 4G network and deployment of the 5G network. In the area of fixed-line communications, the Group is acting to maintain and update its transmission/fiber-optic network as needed, as well as to significantly expand deployment of IBC's fiber-optic network, in an expedited manner, so that the Group can be transformed from an entity that is dependent on the infrastructures of others in the area of fixed-line communication, to a partner in an expansive and independent fixed-line infrastructure.

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

25.4. **Business development -** The Group is examining entrance into tangent and additional areas, in order to leverage its advantages and create growth. In this framework, among others, the Group is entering the area of electricity supply and is examining the provision of additional services in this area.

The aforementioned in this section regarding the Group's strategy and its possible effect on the manner of activity is deemed forward-looking

information as defined in the Securities Law, which may be impacted by various factors, including changes in the communications market, the pace of technological change that characterizes the market, regulatory changes as well as changes in the Group's competitive status. In addition, it may be affected by the extent of realizing all or some of the risk factors outlined in section 26 below.

26. Discussion of risk factors

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

26.1. Macro risk factors

26.1.1. **Financial risks –** The Group is exposed to exchange rate fluctuations, since part of its expenses are in USD while its revenues are generally in NIS. In addition, the Group is exposed to changes in the Consumer Price Index with respect to some series of debentures it has issued, since they are linked to the Index, whereby any increase in the Index increases the Company's obligations and its financing expenses. The Group is acting to minimize exposure to financial risks through protective financial transactions.

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

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

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

26.1.3. **Covid-19 pandemic –** For information on the impact of Covid-19 on the Group's activities, see Section 1.4 to Chapter B of this Report.

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

26.2. <u>Industry risks</u>

26.2.1. **Aggressive competition** - The communications market is highly competitive in many areas. The trends detailed in Section 11 above have led to high churn rates, an increase in costs associated with acquiring and retaining customers, continued price erosion, and an adverse effect on the Group's income and profitability. The Ministry of Communications continues to act to reduce barriers to expanded competition in the different areas of telecommunications, *inter alia* through a more lenient licensing policy. The present level of competition in most of the markets in which the Group is active, as well as proposals for aggressive pricing plans by the Group's competitors, are expected to continue.

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

(1) Tariffs remaining at the present level, or an additional decrease thereof, including as part of a service package;

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

(3) Increased competition by the Bezeq and Hot groups, due to their dominance in the fixed-line market. Thus, for example, if Bezeq and/or Hot were to act to reduce the margin between wholesale and retail service ("Margin Squeeze"), without regulatory intervention to prevent such "squeezing";

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

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

(6) If supplementary services were to become competitive to the Group's services, or the entrance of existing competitors to areas in which they did not previously operate or operated partially until now;

(7) Substantial expansion of the current capacity to supply independent communications services, including through unlicensed third parties; supply of better coverage than that supplied by cellular operators with infrastructure, through the use of a number of networks; allocation of

frequencies to companies that shall be able to supply cellular service not designated for the general public throughout Israel;

(8) Failure of IBC to deploy fixed-line infrastructure. As of the date of the Report, the Group is dependent on the fixed-line Wholesale Market. The band width included in the Group's proposals, in comparison to competitors with their own infrastructures, may be limited due to growth of the Group's television and internet services;

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

(10) Regulatory or technological changes making it easier for customers to transfer between operators;

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

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

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

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

(1) Cancelling or easing of the structural separation obligation applicable

to Bezeq and Hot;

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

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

(4) Allocation of frequencies held by the Group to other companies and/or a demand to return frequencies allocated to the Group and/or a requirement that the Group use fewer frequencies than those allocated to it and/or a limitation on the use of frequencies and/or non-allocation of additional frequencies (if requested) and/or allocation of frequencies under terms that are unfavorable to the Group and/or under terms that are less favorable and/or in a lesser quantity than other operators and/or a demand to replace frequencies in an unreasonable time frame or a need to bear the replacement costs;

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

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

(6) Substantial expansion of the current capacity to supply independent communications services, including through unlicensed third parties; supply of better coverage than that supplied by cellular operators with infrastructure, through use of a number of networks; allocation of

frequencies and enabling companies to supply cellular service not designated for the general public throughout Israel;

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

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

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

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

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

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

(13) Limitation or prohibition against license renewal and allocation of additional frequencies, *inter alia*, since the Group is included in the list of concentrated entities (since it is a subsidiary of Discount Investment Corporation Ltd.), published under the Concentration Law.

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

26.2.3. **A significant drop in profitability due to material changes in the regulatory and business environment** – As a result of material and continuous changes in the Group's regulatory and business environment, the results of operations, profitability and cash-flows have been substantially hurt in the past few years, and in 2018, 2019 and 2020 losses were even recorded. The main factors which led to the continuous decline in the Group's results over the past few years have been regulatory developments designed to increase competition in the Israeli communications market, which caused significant erosion in the prices collected for cellular services. As mentioned, the Company took several significant steps that allowed it to overcome the effects of severe competition and even reach profit in 2021. However, future regulatory intervention or other changes in the market (as expanded on above) could substantially hurt the Company's profitability.

Continued aggressive competition in the markets in which the Group operates, alongside the large scope of the Group's debt and the additional investments required in connection with the 2020 Tender (as defined in Section 13.5 above), could have a negative impact on the results of the Group's activities and its financial situation, prevent it from making the investments required to maintain its competitive status and potential future growth or force it to procure additional debt under unfavorable conditions.

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

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

As public concerns regarding non-iodizing radiation grow and/or should it become clear that there are health risks associated with non-iodizing radiation and/or should deviations from radiation standards be found at the sites or end equipment and/or should there be a court decision against the Group or against another cellular operator and/or a settlement reached in a claim regarding health risks, there could be a material adverse effect on the Group. Such material effect could stem, *inter alia*, from the following causes: different types of claims for compensation for personal injury and property damage of significant scope; difficulty in the construction, operation and rental of sites; decline in revenues resulting in a drop in use of cellular communication; exercise of letters of indemnification deposited with planning institutions under section 197 of the Planning and Building Law, as detailed in Section 21.4 above. It should be noted that the Group does not have insurance coverage for the incidents described above. In addition, the Group is unable to estimate the impact of non-iodizing radiation, if any.

26.2.6. **Dependence on licenses –** The Group provides communications services in accordance with licenses granted by the Ministry of Communications, which are subject to change and extension from time to time. There is no certainty that the Group's licenses shall be extended by the Ministry of Communications. Should the licenses be extended, they may be extended under conditions that are unfavorable to the Group. For further information on exposure to interpretation and implementation of the license provisions by the Ministry of Communications, see Section 21.3 above.

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

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

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

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

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

In addition, the Group's activities are dependent on a number of complex information systems and technologies, including billing systems. Malfunctions in complex systems that change and expand on an ongoing basis are unavoidable. A malfunction in any of the Group's systems that may adversely impact the capacity to supply services and products to customers, or to duly charge them, may lead to a loss of income, have a negative impact on the Group's brand name and expose it to legal claims and administrative sanctions. As of the date of the Report, the Group is continuing development of additional modules for the Company's new CRM system (customer service system for the mobile and fixed-line sectors), the fruit of independent development in cooperation with Amdocs Israel Ltd. that in 2021 relaced some of the systems that were in use by the Group. The development and implementation process requires significant attention from management and may even cause unexpected difficulties and operational failures.

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

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

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

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

date constitute the majority of the Group's sales);

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

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

26.2.10. **Legal proceedings** - The Group is party to legal proceedings filed against it from time to time, including: (a) <u>claims on consumer and privacy matters</u>: scope and size of the Group's activities, number of services supplied, quantity of information processed, changes in the Group's activities and pricing programs, frequent changes in regulations and the applicable law, involvement of thousands of service and sales representatives in customer relations as well as cyber-attacks, all increase the risk of service failures, damage or infiltration to the Company's systems, lack of compatibility between programs, prices and the processed information based on which the Group acts, all despite the Group's efforts to minimize the above risk. The Group's exposure to legal proceedings whose cause of action is based on consumer and privacy matters as above, including within motions for certification of class action claims against the Group, is in material amounts; (b) <u>claims by employees, subcontractors, suppliers, lessees of properties, authorities and others</u> – the Group employs thousands of employees and therefore is exposed to claims by them, including class actions. In addition, the Group is exposed to third party claims in connection with commercial disputes, and claims by state authorities including the Ministry of Communications and planning and building claims (as detailed in Section 21.4(2) above); and (c) <u>intellectual property</u>

claims – the Group is at risk for intellectual property right claims, in connection with its services including television services and other content services (including video, photos and music), which the Group purchases from external suppliers. Such proceedings could require the Group to engage in complex and expensive proceedings, regardless of whether or not the arguments brought against the Group are justified, and limit its ability to use certain content, insofar as such proceedings shall be decided against it.

26.3. Special Risks

26.3.1. **High debt** – The Group has procured debt of a substantial scope that reduces the sources available to it for purpose of current activity and investments and increases its exposure to market changes and makes it difficult to respond quickly to industry changes and conditions in the competitive market, including by procuring additional debt. For further details on the Group's debt, see Section 18 above, and Note 19 to the Company's Financial Statements.

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

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

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

26.3.3. **Network sharing agreement –** Consideration from the Group’s network sharing agreement with Marathon is material to the results of the Group’s activities. If the agreement is terminated or its terms are changed such that payments to the Group under the agreement are materially reduced or payments are not made to the Group under the agreement over a period of time, for any reason whatsoever, it may lead to a material adverse effect on the results of the Group’s activities. For details regarding the creditors’ arrangement and changes to the Sharing Agreement, see Section 23.1 above.

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

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

26.3.5. **Employee unionization –** Employee unionization could limit the Group's current activities, including its ability to make organizational and personnel changes, and require significant management attention. In addition, disputes with the representative body of the employee union could lead to the adoption of organizational measures, and have a negative impact on the Group's services and customer service. Such changes could fail or be executed in a manner materially different than planned, and as a result lead to savings that are lower than planned. For further details on employee unionization within the Group, see Section 14.6 above.

26.4. Risk Factor Table

The table hereunder presents the risk factors described above, based on qualities, ranked by the Group's management, according to their impact on the Group's overall business[35]:

Type of risk	Risk factors	Extent of impact on Group's business		
		Major impact	Moderate impact	Minor impact
Macro risks	Financial risks		X	
	Regional conflict			X
	Spread of Covid-19		X	
	Cyber attacks		X	
Industry risks	Aggressive competition	X		
	Legislative changes and strong regulatory intervention	X		
	A significant drop in profitability due to material changes in the regulatory and business environment	X		

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

Type of risk	Risk factors	Extent of impact on Group's business		
		Major impact	**Moderate impact**	**Minor impact**
	Site licensing		X	
	Dependency on licenses			X
	Technological changes and dependency on technology		X	
	Decline in end equipment revenues		X	
	Times of emergency			X
	Legal proceedings		X	
Risks unique to the Group	High debt rate		X	
	Dependency on suppliers			X
	Network sharing agreement with Marathon	X		
	Group investments in new businesses		X	
	Employee unionization		X	

The Company's estimation regarding the above risk factors, including the extent of impact of the risk factor on the Company, is deemed forward-looking information as defined in the Securities Law, based on Company information as of the Report date, and also including Company estimations and analysis. The impact of the realization of any given risk factor could be different from the Company's estimations, inter alia due to factors that are not necessarily under the Company's control. In addition, the Company may be exposed in the future to additional risk factors, and the impact of each risk factor, if realized, may be different from the Company's estimation.

27. Definitions

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

"**Bezeq**" or "**Bezeq Group**"	-	Bezeq the Israeli Telecommunication Corp. Ltd. and its subsidiaries.
"**Golan**"	-	Golan Telecom Ltd.
"Dynamica"	-	Dynamica Communications Chain Stores Ltd.
"Financial Statements"	-	The Company's consolidated financial statements as of December 31, 2021, which are included in Chapter C of this Periodic Report.
"Board of Directors' Report"	-	The board of directors' report on the corporation's state of affairs as of December 31, 2021, which is included in Chapter B of the Periodic Report.
"**Hot" or "Hot Group"**	-	Hot – Telecommunications Systems Ltd. and its subsidiaries.
"**Hot Mobile**"	-	Hot Mobile Ltd.
"**IRU Agreement**"	-	Indefeasible Right of Use Agreement
"**Company**"	-	Cellcom Israel Ltd.
"**Consumer Protection Law**"	-	The Consumer Protection Law, 5741-1981, and the regulations promulgated thereunder.
"**Radiation Law**"	-	The Non-Ionizing Radiation Law, 5766-2006.
"**Concentration Law**"	-	The Law for Promotion of Competition and Reduction of Concentration, 5774-2013.
"Planning and Building Law"	-	Planning and Building Law, 5725-1965.
"Communications Law"	-	Communications (Telecommunications and Broadcasting) Law, 5742-1982.
"IPCS"	-	International Phone Call Service (international operator).

“Virtual Operator” or “MVNO”	-	A cellular operator that does not possess infrastructure and frequencies, and purchases hosting services from an operator with infrastructure.
“**Marathon**”	-	Marathon 018 Xfone Ltd.
“Cellcom” or the “Group”	-	The Company and the Subsidiaries.
“Cellcom tv”		Internet television services (OTT) including television channel broadcasts, video on demand (VOD) services, and other advanced features.
“Pelephone”	-	Pelephone Communications Ltd.
“Telegraph Ordinance”	-	The Wireless Telegraph Ordinance [New Version], 5732–1972
“Partner”	-	Partner Communications Company Ltd.
“End Equipment”	-	Different types of mobile phones, Bluetooth and accessories, tablets, laptop computers, modems, speakers, smart watches, and other electronic accessories.
“Unified License”	-	A general license for providing telecommunications services that allows providing different kinds of services, granted to Cellcom Fixed Lines Communications L.P.
“Wholesale Market”	-	As detailed in Section 21.5(2).
“Cellcom Partnership”	-	Cellcom Fixed Line Communications Limited Partnership.
“IBC Partnership”	-	IBC Unlimited Holdings Limited Partnership.
“IIF”	-	Israel Infrastructure Fund III L.P.
“GSM”	-	Digital cellular network technology commonly - used in most countries in the world.
“GPRS”	-	Data communications standard using GSM network, which enables content transfer and internet access.
“EDGE”	-	Data communications standard using GSM network, which is an upgrade of GPRS.

"HSPA"	-	High Speed Packet Access – a wireless cellular communications protocol designated for a spatial communications network that connects between municipal networks and local networks.
"HSPA +"	-	Upgrade of HSPA technology.
"IBC"	-	IBC Israel Broadband Company (2013) Ltd.
"IOT Solutions"	-	Internet of Things solutions, which enable connection of different end products to the internet, such as "smart city" solutions.
"LTE"	-	Radio technology standard – mobile phone which enables fast-paced data transfer.
"MNO"	-	Mobile Network Operator, cellular communications operator with infrastructure and frequencies.
"OTT"	-	Over The Top, technology that uses public internet infrastructure to supply video on demand television services.
"UMTS"	-	Universal Mobile Telecommunication System, or worldwide mobile telephone system, 3G cellular telephone technology. HSPA technology using UMTS network constitutes one of the dominant 3G standards.
"VOB"	-	Voice Over Broadband, IP telephone service on fixed-line broadband access.
"IP"	-	Internet Protocol, internet protocol which enables coherence between voice, data and video on the same network.
"VOIP"	-	Voice Over IP, general term for different technologies and systems for voice transfer using IP networks, such as the internet.
"RSUs"	-	Restricted Share Units.

“SAR Level”		For mobile phones held near the body, the level of non-ionizing radiation emitted from the phone is measured based on the level of specific absorption in an animal’s body, the Specific Absorption Rate.
“SDH”	-	Synchronous Digital Hierarchy, technological standard for the transfer of data using optic media.
“Ethernet Carrier”	-	Network for transfer of transmission and data using IP technology.

Chapter B

Board of Directors’ Report on the State of the Company’s Affairs

December 31, 2021

The Company's Board of Directors hereby respectfully submits the Board of Directors' Report on the State of the Company's Affair and its subsidiaries (hereinafter together: "**The Group**") for the period of the year ended on December 31, 2021 (the "**Report Period**"). This Report is prepared according to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Report Regulations**")

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

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

1.1. General

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

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

For details about desilting the Company's shares from trading on NYSE and the process of deregistration and ending of reporting obligations to the SEC, see section 1.4 below.

As of the Report date, the Company and subsidiaries (the "**Group**") are active in the Israeli communications market in two areas of activity, which are reported as reportable segments in the Company's consolidated financial statements as of December 31, 2021 (the "**Financial Statements**") (for details see Note 6 to the Financial Statements):

1.1.1. The cellular communications area (cellular segment) - In the framework of this field of activity, the Group provides its customers with a wide range of cellular telecommunication services in Israel, under licenses it was granted by the Israeli Ministry of Communications or MOC. In addition, the Group provides overseas roaming services to its customers and to customers of foreign operators who are visiting Israel. The Company sells related services and end-user equipment and equipment repair services to its customers. The cellular segment also includes the Company's revenues arising from the sharing agreement with Marathon 018 Xfone Ltd. or "**Xfone**". For details see Note 32 to the Financial Statements.

1.1.2. The fixed-line communications area (fixed-line segment) - In the framework of this field of activity, the Group provides internet connectivity services, internet infrastructure (based on the fixed-line wholesale market and IBC's fiber-optic infrastructure), television services over the internet ("**Cellcom tv**"), international telephony services, fixed-line telephony services ("**Domestic Operator Services**") for the business and private sectors, and transmission services for business customers and for telecommunication operators based the Group’s independent infrastructure. The communication services are provided under licenses it was granted by the MOC (except for the internet television services that do not require a license). Similarly, the Group provides additional services such as: Conferencing services, server hosting services, cloud information security services and IOT solutions. In addition, the Group offers end-user equipment and equipment repair services to its customers.

1.2. A review of the Company’s management regarding the results of the Group’s activity for the year 2021 and material processes that were conducted that year:

2021 was a turning point for the Company. After presenting a net loss of NIS 170 million in 2020 (following the losses reported by the Company in 2018 and 2019), the Company returned to a net profit of NIS 29 million as well as an improvement in all the Company’s profitability metrics, both financial and operational, including a significant improvement in its free cash flow. The transition to profitability was due in part to the steps taken by the Company in 2020, which included the acquisition of Golan Telecom Ltd. (“**Golan**”) (a company wholly owned by the Company) and the adjustment of the Company’s expenditure structure, which included a reduction in workforce. In addition, the Company returned to growth in the number of its cellular subscribers, along with a significant reduction in churn rate, while continuing to focus on operational efficiencies and improving the quality of the service and the network.

The company ended 2021 with growth in its cellular subscriptions, which reached 3.275 thousand subscribers at the end of the year (growth of approximately 2.2%), growth in its fiber subscriptions which reached about 135 thousand subscribers (growth of about 45%). The Company concluded 2021 with revenues of NIS 4,100 million compared to NIS 3,676 million in 2020, which reflects an increase of approximately 11.5%. The year 2021 included full consolidation of the results of the Golan subsidiary. Revenues in the mobile segment in 2021 increased by 12.5% and totaled NIS 1,867 million. Revenues from services in the fixed-line segment decreased by 6.1% compared to 2020 and amounted to NIS 1,226 million. The decrease is mainly due to transmission revenues received in 2020 from Golan prior to its acquisition.

Revenue from end user equipment in 2021 grew by 32.1% compared to 2020 and totaled approximately NIS 1,161 million as a result of an increase in revenue from end equipment in the mobile and fixed-line segment.

The Company’s adjusted EBITDA in 2021 totaled NIS 1,133 million, a growth of 23.5% compared to 2020. The increase was due to an increase in revenues while continuing to focus on operational efficiencies and maintaining a similar volume of expenses in the Company between the years, despite full consolidation of Golan expenses in 2021.

The Company’s net profit in 2021 totaled approximately NIS 27 million, compared with a loss of NIS 170 million in 2020. The significant improvement in profit was due to the reasons mentioned above as well as an increase in revenue from roaming services, which, as mentioned, have not yet returned to pre-Covid levels, but are higher than revenues from roaming services in 2020. Free cash flow (FCF) totaled NIS 267 million compared to NIS 250 million in 2020, an increase of 7%.

The results of the Company's operations for 2021 reflect the actions that were and are being taken by the Company to improve the experience and quality of service, among other things, by upgrading the cellular and fixed-line infrastructure and emphasizing a high level of service and fairness to its customers.

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

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

1.3.1. Regarding the dispute with Marathon and the Company entering into an agreement to change the terms of its partnership and use agreement with Marathon, see section 23.2 in Chapter A of this Periodic Report and Note 31D to the Financial Statements.

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

1.3.3. With regard to a new collective bargaining agreement signed by the Company and a subsidiary with the Workers Committee and the New General Workers Union, see section 14.6 in Chapter A of this Periodic Report and Note 31E to the Financial Statements.

1.1.1. With regard to the judgment granted in a class action against the Company and the provision made in respect thereof, see Note 32 to the Financial Statements.

1.1.2. In November 2021, the previous CEO of the Company, Mr. Avi Gabbay, ended his term, and in January 2022, the new CEO of the Company, Mr. Daniel Sapir, began his tenure at the Company (for details, see Company immediate reports, reference nos. 2021-01-169809 and 2022-01-011350).

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

For details regarding deregistration of the Company's shares in the United States and termination of reporting obligations to the SEC, see section 1 of Chapter A.

1.4. The Corona virus spread

Pursuant to Note 1B to the Financial Statements, during 2021 the Company continued to experience a significant decrease in roaming services revenues from outbound and inbound travel compared to the pre-Covid period. At the same time, as a result of a partial reversal of outbound travel, the Company recorded an increase in roaming service revenues compared to

2020. The Company estimates that the material adverse effect on the results of its operations is expected to continue in the near future as long as restrictions on inbound and outbound travel continue.

In light of the opening of the Israeli economy since the start of the year without restrictions on trade and the opening of shopping malls, the results of the Company's operations during the reporting period, except for the damage to roaming service revenues, as stated above, were not affected, as opposed to 2020. The Company examined its financing sources and liquidity, and it estimates that it has the financial strength to deal with consequences of the Covid-19 pandemic, partly in light of the diversification of its areas of activity and its scale of surpluses and liquidity.

The Company examined the effects of the pandemic on the current balances in the report on the Company's financial situation, including current assets, inventory, fixed assets, and the effect on changes to lease agreements, and it did not make adjustments of substantive amounts due to the pandemic. Nevertheless, since we are dealing with an ongoing crisis that is not in the Company's control and characterized by uncertainty as to when the global pandemic will be curbed, as of the date of the Financial Statements there is no certainty with respect to the depth of the effect on the Company and the market in general, inter alia in light of market conditions and the phases of dealing with the pandemic in Israel and the world, the extent of unemployment, the scope of private consumption, the rate of inflation and the concern of a local or global recession or a renewed outbreak of Covid-19. Such sweeping effects, insofar as they materialize, in whole or in part, may adversely affect the Company's business and the results of its operations.

The Company's estimations with respect to the trends, events, and developments in connection with the coronavirus spread, which are expected to have an effect on its business activity and results, and regarding the manner of their effect on the Company, its activity and its results, constitutes forward looking information as defined in the U.S Private Securities Litigation Reform Act of 1995 and ***and in the Israeli Securities Law 1968, which is uncertain, since it is affected by an a variety of factors that are beyond the Company's control, and it is inter alia subject to the effect of the factors set forth above, and under the risk factors in the Company's areas of activity (as set forth in Section 26 of Chapter A to the Periodic Report for the year 2021).***

2. **Financial position**

Section	As of December 30		Board of directors' explanation
	2021	2020	
	NIS millions		
Current assets	1,800	2,299	The decrease in current assets was mainly due to a decrease in the cash and short-term deposits section due to repayments of debentures, as well as a decrease in the customer section due to a decrease in balances in respect of end equipment customers.
Non-current assets	4,770	4,858	The decrease in non-current assets was mainly due to a decrease in intangible assets and fixed assets as a result of a current reduction.
Total assets	**6,570**	**7,157**	
Current liabilities	1,710	1,929	The decrease in current liabilities was mainly due to the repayment of debentures and loans from financial institutions and a decrease in the provisions section as a result of the repayment of a liability of the subsidiary Golan to the Ministry of Communications.
Non-current liabilities	2,939	3,348	The decrease in non-current liabilities was mainly due to repayments of debentures during the year.
Total liabilities	4,449	5,277	
Equity	1,921	1,880	The increase in equity was mainly due to a profit in 2021
Total liabilities and equity	**6,570**	**7,157**	

3. **<u>Analysis of the operating results</u>**

3.1. Below is an analysis of the Company's operating results for the year ended at December 31, 2019, 2020 and 2021 (in NIS millions):

Section	**For the year ended at December 31**			**Board of directors' explanation**
	2021	**2020**	**2019**	
	NIS millions			
Revenues from services	2,939	2,798	2,776	The increase in 2021 compared to 2020 was mainly due to the consolidation of Golan's results from the beginning of the year in relation to a period of four months of activity in 2020, as well as an increase in roaming service revenues. The increase in 2020 compared to 2019 was mainly due to the consolidation of Golan's revenues in relation to a period of four months of activity as well as an increase in fixed-line segment revenue, which were partially offset by a decrease in revenue from roaming services as a result of the Covid-19 pandemic.
Revenues from equipment	1,161	878	932	The increase in 2021 compared to 2020 was mainly due to an increase in revenues from end equipment in the mobile and fixed-line segment in light of the increase in focus in this area. The decrease in 2020 compared to 2019 was mainly due to a decrease in revenues from end equipment in the fixed-line segment which was partially offset by an increase in sales of end equipment in the mobile segment as a result of an increase in sales on the Company's website and sales to business customers.
Total revenues	4,100	3,676	3,708	

Section	For the year ended at December 31			Board of directors' explanation
	2021	2020	2019	
	NIS millions			
Cost of revenues	(2,963)	(2,800)	(2,725)	The increase in 2021 compared to 2020 was mainly due to an increase in costs of end equipment sold in the mobile and fixed-line segment and costs of Golan that were consolidated in all of 2021. The increase in 2020 compared to 2019 was mainly due to an increase in costs of end equipment sold in the mobile segment, consolidation of Golan for the first time, an increase in the cost of connectivity fees as a result of an increase in call minutes. This increase was partially offset by a decrease in wholesale market costs as a result of a retrospective update of Bezeq tariffs.
Gross profit	1,137	876	983	
Gross profit rate from total revenues	27.7%	23.8%	26.5%	
Sale and marketing, General and administrative costs and credit losses	(972)	(937)	(939)	The increase in 2021 compared to 2020 was mainly due to an increase in the Company's operating expenses as a result of the consolidation of Golan for a full year, which were partially offset by a decrease in expenses as a result of streamlining and a decrease in credit losses. The decrease in 2020 compared to 2019 mainly derived from reduced salary costs as a result of the temporary closure of in-person points of sale and putting employees on unpaid leave following Covid-19 during the year and from the Company streamlining manpower as a result of employees retiring as part of a voluntary retirement plan that was implemented in Q4 of 2019. This decrease was offset against an increase in the Company's depreciation and amortization expenses as well as from the consolidation of Golan for the first time.

Section	For the year ended at December 31			Board of directors' explanation
	2021	2020	2019	
	NIS millions			
Other income, net	44	38	(20)	The increase in 2021 was mainly due to the recording of a profit from contracting work for the deployment of the fiber optic network. The increase recorded in 2020 relative to 2019 is mainly due to the recording of a provision in respect of a voluntary retirement plan for employees.
Operating profit (loss)	209	(23)	24	
Financing costs, net	(165)	(172)	(144)	The decrease in 2021 compared to 2020 was mainly due to losses in the investment portfolio recorded in 2020 as a result of the Covid-19 pandemic. The decrease was offset against an increase in financing expenses in respect of index-linked debentures resulting from an increase in the index in 2021. The increase in 2020 compared to 2019 was mainly due to losses in the investment portfolio in 2020 compared to profits in 2019.
Share in the losses of equity accounted investees	(5)	(14)	(10)	
Profit (loss) before taxes on revenue	39	(209)	(130)	
Tax benefit (Taxes on income)	(12)	39	23	In 2021, beyond tax expenses compared to tax revenues in 2020 as a result of profits before tax in 2021 compared to losses in 2019, 2020.
Profit (loss) for the period	**27**	**(170)**	**(107)**	

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

Section	Q4 2021	Q4 2020	Board of directors' explanation
Revenues from services	751	739	The increase compared to the previous quarter was mainly due to an increase in income from roaming services.
Revenues from equipment	318	235	The increase is mainly from mobile segment revenue due to high volume sales of hand-sets in the current quarter.
Total revenues	1070	973	
Cost of revenues	762	748	The increase mainly due to direct costs as a result of an increase in equipment revenues, that was partially offset by a decrease in technological network costs.
Gross profit	308	225	
Gross profit rate from total revenues	28.8%	23.1%	
Sale and marketing, General and administrative costs and credit losses	249	255	The decrease is mainly due to advertising expenses.
Other income, net	9	17	The decrease is mainly due to profits from operating contractor for fiber network deployment
Operating profit (loss)	68	(13)	
Financing costs, net	39	42	Mainly due to a decrease in the debt debentures and loans.
Share in the losses of equity accounted investees	1	5	
loss before taxes on revenue	28	(60)	
Tax benefit (Taxes on income)	(7)	16	
Profit (loss) for the period	**21**	**(44)**	

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

Financial data(million NIS)	2021	2020	Q4'21	Q3'21	Q2'21	Q1'21	Q4'20	Q3'20	Q2'20	Q1'20
Revenue from services cellular segment	1,867	1,660	474	474	461	458	465	414	385	396
Revenue from equipment cellular segment	915	704	242	211	223	239	178	223	147	156
Totakl Revenues cellular segment	**2,782**	**2,364**	**716**	**685**	**684**	**697**	**643**	**637**	**532**	**552**
Revenue from services fixed-line segment	1,226	1,306	315	304	305	302	313	327	339	327
Revenue from equipment fixed-line segment	246	174	77	44	52	73	57	38	25	54
Totakl Revenues fixed-line segment	**1,472**	**1,480**	**392**	**348**	**357**	**375**	**370**	**365**	**364**	**381**
consolidation adjusments	(154)	(168)	(38)	(39)	(38)	(39)	(40)	(46)	(41)	(41)
Total revenues	**4,100**	**3,676**	**1,070**	**994**	**1,003**	**1,033**	**973**	**956**	**855**	**892**
Gross profit eqipment	183	121	60	34	41	48	33	22	20	46
Operational expenses	2,017	2,018	522	494	508	493	550	493	485	490
Adusted EBITDA cellular segment[1]	684	525	180	168	175	161	155	114	125	131
Adusted EBITDA fixed-line segment[1]	449	393	108	109	122	110	66	117	97	113
Adjusted EBITDA	1,133	918	288	277	297	271	221	231	222	244
Operating profit (loss)	209	23	67	59	33	50	(13)	(6)	(22)	18
finanacing expenses, net	165	172	39	39	49	38	42	32	34	64
income (loss) Net	27	(170)	21	13	(14)	7	(44)	(37)	(46)	(43)
Capital expendtures tangible and intangble assets	560	499	163	165	128	104	159	108	114	118
Free cashflow	267	250	46	110	62	49	125	44	24	57
Finance dept ,net	2,144	2,276	2,144	2,162	2,240	2,259	2,276	2,368	1,839	1,890
operational Data										
Number of cellular Subscribers	3,275	3,204	3,275	3,246	3,226	3,232	3,204	3,641	2,734	2,747
Churn rate for cellular Subscribers	31.0%	40.2%	7.4%	7.2%	8.6%	7.8%	8.4%	8.7%	8.7%	8.8%
Monthly cellular ARPU (NIS)	48.0	47.3	48.4	48.6	47.7	47.4	48.6	45.7	46.9	48.1
TV field Subscribers (thousands)	252	252	252	250	250	254	252	251	245	246
Internet infrastructure field Subscribers (thousands)	305	293	305	300	296	297	293	289	283	279
Fiber infrastructure field Subscribers (thousands)	135	93	135	123	113	106	93	80		

[1] See definition in Section 4 below

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

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

	Cellular			Fixed-line			Inter-segment adjustments	
	2020	2019	Change in %	2020	2019	Change in %	2020	2019
Revenue from services	1,660	1,679	(1.1)%	1,306	1,258	3.8%	(168)	(161)
Revenue from equipment	704	661	6.5%	174	271	(35.8%)	-	-
Total revenue	2,364	2,340	1.0%	1,480	1,529	(3.2%)	(168)	(161)
Adjusted EBITDA	525	627	(16.2%)	393	313	16.4%	-	-
Adjusted EBITDA as a percentage of total revenue	22.2%	26.8%	(17.2%)	26.6%	20.5%	29.8%	-	-

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

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

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

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

Indicator	For the year ended		
	2021	2020	2019
Net income (Loss) for the period	27	(170)	(107)
Taxes on income (tax benefit)	12	(39)	(23)
Financing costs, net	165	172	144
Other expenses than are not part of the Company's current activity	13	(3)	10
Depreciation and amortization	896	924	898
Losses from equity accounted investees	5	14	10
Share-based payment	15	20	8
Adjusted EBITDA	**1,133**	**918**	**940**

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

Section	For the year ended December 31,		
	2021	2020	2019
Net cash deriving from operating activities	1,052	993	1,036
Cash used for investment activities	(192)	(1,015)	(560)
Neutralizing changes in the investment portfolio and deposits	(335)	525	14
cash used for leases (financing activities)	(258)	(253)	(280)
Sale of fiber net	-	-	181
Free cash flow	**267**	**250**	**391**

* Changes in deposits/investments are neutralized of free cash flow of NIS 324 million and neutralized payment by Golan in the amount of NIS 75 million to the MOC, which is part of the Purchasing of Golan by the Company.

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

Central operational indicators - cellular segment:

Indicator	For the Year ended December 31			Company's explanations
	2021	2020	Change in %	
No. of cellular subscribers at the end of the period (in thousands)[2]	3,275	3,204	2.2%	The Company ended 2021 with a positive net increase that resulted in part from a decrease in churn rate and an improvement in the quality and level of service and the network.
Churn rate of cellular subscribers[3] (in %)	31.0%	40.2%	(22.9)%	The decrease in churn rate is a result of the processes led by the Company this past year that include investment in infrastructure and improving customer experience.
Average monthly revenues per cellular subscriber (ARPU) (in NIS)[4]	48.0	47.3	1.55%	The increase in ARPU is due in part to an increase in roaming service revenues due to a partial return of outbound travel compared to 2020, which was hit with the Covid-19 pandemic. method of counting the subscribers in Q4 of 2020.

Indicator	For the Year ended December 31	Company's explanations

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

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

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

	2020	2019	Change in %	
No. of cellular subscribers at the end of the period (in thousands)[5]	3,204	2,774	16.8%	The increase in the list of subscribers in 2020 derives from the inclusion of Golan subscribers after the completion of its acquisition.
Churn rate of cellular subscribers[6] (in %)	40.2%	48.8%	(17.6)%	
Average monthly revenues per cellular subscriber (ARPU) (in NIS)[7]	47.3	50.7	(6.7)%	The erosion of ARPU mainly derives as a result of the decrease in roaming revenues following the Coronavirus Crisis.

Central operational indicators – Fixed-line segment:

Indicator	For the Year ended December 31					Company's explanations
	2021	2020	2019	Change in % 2021-2020	Change in % 2020-2019	
Internet infrastructure - no. of subscribers (households) as of the end of the period (in thousands)[8]	305	293	278	4.1%	5.4%	The increase in the number of subscribers is a result of the continued growth of subscribers to the Company's services.
Television - no. of subscribers as of the end of the period (in thousands)[8]	252	252	258	-	(2.3%)	The stagnation in the number of subscribers in 2021 is primarily a result of the media crisis that the Company experienced in May 2021.

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

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

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

8 Subscribers data refers to "active" subscribers.

5. **Liquidity**

Below are the Board of Directors' explanations on the Company's liquidity position for the year ended at 31, December 2019, 2020 and 2021 (in NIS millions):

Section	2021	2020	2019	Board of directors' explanation
Cash flow from current activities	1,052	993	1,036	The increase in 2021 compared to 2020 was mainly due to the net profit in 2021 compered to a loss in a previous year. The decrease in 2020 compared to 2019 was due to payments in respect of a voluntary retirement plan and an increase in payments for rights to use the fiber infrastructure.
Cash flow from investment activities	(192)	(1,015)	(560)	The decrease in 2021 compared to 2020 was mainly due to the acquisition of Golan in 2020 and realization of deposits in 2021. The increase in 2020 compared to 2019 was mainly due to the acquisition of Golan.
Cash flow (used) derived from financing activities	(933)	(265)	(672)	The increase in 2021 compared to 2020 and in 2019 compared to 2020 was mainly due to receipts from the exercise of options from the equity issuance as well as a result of a public offering and a private placement of the Company's debentures during 2020.
Balance of cash and cash equivalents as of the end of the period	**644**	**719**	**1,006**	

6. **<u>Financing sources</u>**

The Company mainly finances its activity through cash flow from current activity, by issuing securities, including debentures and ordinary shares, and with loans from institutional entities.

6.1. Details about the Company’s debentures in Circulation as of September 30, 2021 are attached to this Board of Directors Report.

6.2. There were no significant changes in the credit days received by the Company from its vendors and customers in relation to the description in the Periodic Report for the year 2020.

6.3. Vendors' credit - see section 16.2 in Chapter A of this periodic report.

Chapter B – Aspects of Corporate Governance

7. **The Company's involvement in the community and donations**

The Company views donations and community assistance in Israel as a pillar of its business vision, and it believes that it has a social responsibility, and it recognizes that business leadership goes hand-in-hand with ethical-social leadership.

Accordingly, in 2021 the Company donated approximately NIS 614,000, and approximately 1,300 of the Company's employees participated in community volunteering.

8. **Code of ethics**

The Company adopted a code of ethics that was approved by the Company's board of directors, which anchors the basic values under which it acts. The code of ethics includes norms of behavior for the Company's officers, managers, employees and suppliers, which should be implemented alongside provisions of law and the Company procedures.

The code of ethics is available for reference on the Company's website, at: https://www.cellcom.co.il/globalassets/pdf/supportsocial_info/code_of_ethics.pdf.

9. **Exposure to market risks and their management**

The Group's activity exposes it to risks in connection with various financial instruments, such as currency risks and cash flow risks for changes to the dollar exchange rate, to the interest rate and the Consumer Price Index. Management of the Company's risks focuses on taking action to reduce potential negative financial effects on the Group's financial results.

The Group's main exposure is to changes in the Consumer Price Index, since some of the Company's costs as well as some of the debentures issued by the Company are index-linked, and to changes in the dollar exchange rate (mainly due to dollar payments for the purchase of equipment and network equipment, payments to international operators, and television service content). The Company is acting to reduce the economic exposure to these financial risks through derivative financial instruments for hedging the exposures in amounts and scopes that are examined from time to time.

The Group tracks the market risks through a board of directors committee on exposure matters that was established for purpose of tracking, supervising, and managing the market risks, according to the risk management policy that was determined by the Company's board of directors.

10. **<u>Directors with accounting and financial expertise</u>**

The minimum number of directors with accounting and financial expertise appropriate for the Company, as determined by the Company's board of directors under Section 92(a)(12) of the Companies Law, 5759-1999 (the "**Companies Law**"), is 2 directors, considering the nature of the accounting and accounting control matters that arise when preparing the Company's financial statements, the Company's areas of activity, its size and the scope and complexity of its activity. Currently, four directors with accounting and financial experience are serving in the Company's board of directors, Messrs. Doron Cohen, Gustavo Traiber, Shmuel Hauser and Baruch Itzhak. For additional details with respect to these directors, Annex A in Chapter D to this Periodic Report.

11. **<u>Independent directors</u>**

As of the Report date, the Company in its articles of association did not adopt a provision regarding the number of independent directors according to the provisions of Schedule One to the Companies Law. Nevertheless, as of the Report date, one independent director is serving in the Company, Mr. Gustavo Traiber. For additional details with respect to this director, see Annex A in Chapter D to this Periodic Report.

12. **<u>Disclosure regarding on the Company's internal auditor</u>**

12.1. <u>Details of the internal auditor</u>: CPA Itzhak Ravid has been serving as the Company's internal auditor since March 14, 2017. Mr. Ravid has a BA in Accounting and Economics from Tel Aviv University, serves as managing partner in the accounting firm Raveh-Ravid & Co., and has 30 years of experience in the field of internal auditing.

To the best of the Company's knowledge, the internal auditor is in compliance with Section 146(b) of the Companies Law, and with the provisions of Sections 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

The internal auditor is an external service provider for the Company on behalf of the offices of Raveh-Ravid & Co., where he serves as partner and co-owner. Apart from his role as the Company's internal auditor, Mr. Ravid serves as the internal auditor of Discount Investment Corporation Ltd. To the best of the Company's knowledge, the internal auditor does not hold securities of the Company or of a company affiliated with it. To the best of the Company's knowledge, the internal auditor is not in a position that creates or may create a conflict of interest with his role.

12.2. <u>Manner of appointment</u>: The appointment of Mr. Itzhak Ravid was approved on March 14, 2017, at the Company's board of directors for a period of 3 years, after receiving the audit committee's approval. After an in-depth examination of his education and years-long experience, the board of directors found that Mr. Itzhak Ravid is suitable to serve as the Company's internal auditor, *inter alia* considering the type of company, its size, the scope of its activity, and its complexity. At the end of such term the appointment was extended for additional one year terms, the last of which, as of the Report date, is until the end of 2022.

12.3. Identity of the organizational supervisor over the internal auditor: According to the provisions of Article 60 to the Company's articles of association, the organizational supervisor over the internal auditor is Mr. Daniel Sapir, the Company's CEO.

12.4. The working plan of the internal auditor: The working plan of the internal auditor is on an annual basis. The working plan is determined according to the nature of the Company's business activity and the probability of malfunctions and exposures in its business activity, based on a risk assessment survey that the internal auditor conducts every 5 years. The audit plan is prepared in collaboration with the senior management and audit committee, which approves the working plan. The Company's current audit plan for 2022 was approved by the audit committee in December 2021.

12.5. Auditing of the Company's material investee corporations: The internal auditor's audit plan includes reference to the Company's material investee corporations.

12.6. Scope of internal auditor's employment: In 2020 and 2021 the scope of the internal auditor's work was approximately 6,000 and 5,800 hours, respectively. The scope of the work was determined by the audit committee, considering the Company's structure, its complexity and its nature. A deviation from the scope of hours is approved by the audit committee.

12.7. Preparation of the audit: The internal auditor and staff under him are required to perform the auditing work while adhering to criteria necessary for performing an audit that is professional, reliable, autonomous and independent of the audited entity.

12.8. Free access to the internal auditor: The internal auditor has free access as stated in Section 9 of the Internal Audit Law, including constant and unmediated access to the Company's information systems, including to financial data.

12.9. Accountability of the internal auditor: The audit reports are submitted in writing to the Company's CEO and to the members of the audit committee and are discussed in the Company's audit committee.

In 2020, the internal auditor submitted 11 audit reports to the Company (between two and three reports per quarter), which are discussed at the audit committee once every quarter.

12.10. <u>The audit committee's evaluation of the internal auditor's activity</u>: In the opinion of the audit committee, the scope, nature, and continuity of the internal auditor's activity and his working plan are reasonable under the circumstances, and they may achieve the goals of the internal audit.

12.11. <u>Internal auditor compensation</u>: The audit committee set this at NIS 255 per work hour (plus VAT), multiplied by the number of hours to be invested according to the audit plan, as approved by the Company's competent organs. The compensation of the internal auditor does not change and is not dependent on the auditing results, and therefore, in the opinion of the Company's board of directors, the internal auditor exercising his professional judgement is not affected by the manner in which he is compensated.

13. **<u>Disclosure regarding the Company's auditor</u>**

13.1. <u>Identity of the auditor</u>

Since 2018 the Company's auditor has been Kesselman & Kesselman PwC, CPAs, whose address is 146 Menachem Begin Road, Tel Aviv 6492103 (the "**Auditing CPAs**").

13.2. <u>Fees of the Auditing CPA</u>

Below is the data regarding the fee paid to the Auditing CPAs for the audit and tax services and for other services provided to Group companies, as well as regarding working hours invested by the Auditing CPAs in 2019, 2020 and 2021:

13.2.1. Below are details on professional fees paid to the Auditing CPAs (in NIS millions):

Year	For auditing and tax services	For other services
	NIS millions	Amount
2019	2.3	0.2
2020	2.3	0.2
2021	2.2	0.2

13.2.2. The auditing services include the audit of the Company's annual financial statements. The tax services include professional services provided for purpose of the Company complying with the requirement of the tax authorities, including auditing original and amended tax returns, tax planning, and consulting, except in connection with auditing. The other services include *inter alia* assistance in preparing and auditing documents submitted to the SEC, accounting consulting in connection with the accounting treatment during the Company's ordinary course of business, consulting on the implications of implementing new accounting standards, and other accounting matters that occur from time to time, as well as special reports that require the approval of an auditing CPA with respect to conditions for complying with various tenders that the Group participates in.

The fee for the Company's Auditing CPA was determined in negotiations between the Auditing CPA and the Company's management, according to the estimated rate for providing the services, which is based on the number of hours invested by the Auditing CPA. The Auditing CPA's fees are approved by the Company's audit committee.

Chapter C - Disclosure with respect to Financial Reporting

14. **Details in connection with debentures in circulation**

14.1. Details in connection with liability certificates in circulation, as of December 31, 2021, are attached as an annex to the board of directors' report.

14.2. As of the Report Date, as determined by the Company's board of directors, there are no warning signs as such are defined in Regulation 10(b)(14) of the Report Regulations, and the Company is in compliance with all financial criteria and the additional terms and obligations set forth in the trust deeds to the liability certificates that it issued.

15. **Material and highly material evaluations**

Below are details about material and highly material evaluations, according to Regulation 8B(i) to the Report Regulations:

1. **Evaluation for examining and evaluating goodwill in the Company's annual financial statements**

Identifying the subject of evaluation:	The value of the mobile and fixed-line sectors' use for purpose of examining a devaluation in goodwill set forth in the consolidated annual financial statements as of December 31, 2021, according to International Accounting Standard 36.
Timing of the evaluation:	31-Dec-2021 Evaluation executed on March 8, 2022
The value of the evaluation's subject that was determined right before the evaluation date:	NIS 1,761 million bookkeeper's value of the fixed-line sector, goodwill of NIS 732 million. NIS 2,989 million bookkeeper's value of the mobile sector, goodwill of NIS 831 million.

The value of the evaluation's subject that was determined according to the evaluation:	NIS 2,706 million value of the fixed-line sector. NIS 4,403 million value of the mobile sector.
Details about the appraiser:	The evaluation was conducted by BDO Management and Consulting Ltd. which is part of the international BDO network. The work was conducted by a team led by CPA Moti Dattelkramer, a managing partner who has a BA in economics and computer science, with more than 10 years of experience in business consulting. The team specializes in evaluation work, allocation of PPA cost balances, due diligence, devaluation examinations, and more.
Is there an indemnification agreement with the appraiser?	The Company undertook to indemnify the appraiser in an amount exceeding three times his fees unless he acted negligently or maliciously. In such cases the indemnification shall not apply.
The evaluation model under which the appraiser acted:	Cash flow capitalization method.
The assumptions under which the appraiser made the evaluation, according to the evaluation model:	Capitalization rate after tax - 7. 0% Growth rate - 1.5% With respect to additional assumptions of the appraiser, see details in the work attached as an annex to this board of directors report.

March 9, 2021

Mr. Daniel Sapir	**Mr. Doron Cohen**
CEO of the Company	**Chairman of the Board of Directors**

Annex - Details Regarding debentures in Circulation as of the Report Date

1. Details Regarding debentures in Circulation: (NIS million)

Series (**)	Date of issue	Par value on the issue date (in NIS millions)	Par value on September 30, 2021	Par value on September 30, 2021, including linkage	Accrued interest	Financial statements balance as of September 30, 2021	Stock market value	Type of interest	Payment dates of principal	Payment dates of interest(1)	Terms of linkage	Convertible	Right to early redemption
Series H	July 8, 2014; February 3, 2015*; February 11, 2015*;	949.624	466.270	446.544	2.201	448.745	489.185	Annual interest of 1.98%.	From July 5, 2018, until July 5, 2024 (including)	On January 5 and July 5, every year from 2015 until 2024 (including)	Linked (principal and interest) to the Consumer Price Index.	No	Subject to certain terms
Series I	July 8, 2014; February 3, 2015*; February 11, 2015*; March 28, 2016.	804.010	450.246	441.014	4.443	445.457	477.260	Annual interest of 4.14%.	Eight annual payments: Three equal annual payments of 10% from the principal amount on July 5 of 2018 until 2020 (including), and five equal annual payments of 14% from the principal amount on July 5 of 2021 until 2025 (including).	On January 5 and July 5, every year from 2015 until 2025 (including)	Not Linked	No	Subject to certain terms
Series J	September 25, 2016	103.267	90.513	90.117	0.529	90.646	97.590	Annual interest of 2.45%.	On July 5 of 2021 until 2026 (including).	On January 5 and July 5, every year from 2017 until 2026 (including)	Linked (principal and interest) to the Consumer Price Index	No	Subject to certain terms

Series (**)	Date of issue	Par value on the issue date (in NIS millions)	Par value on September 30, 2021	Par value on September 30, 2021, including linkage	Accrued interest	Financial statements balance as of September 30, 2021	Stock market value	Type of interest	Payment dates of principal	Payment dates of interest(1)	Terms of linkage	Convertible	Right to early redemption
Series K	September 25, 2016; July 1, 2018*; December 10, 2018*	710.634	604.039	601.095	5.111	606.206	633.033	Annual interest of 3.55%.	On July 5 of 2021 until 2026 (including).	On January 5 and July 5, every year from 2017 until 2026 (including)	Not Linked	No	Subject to certain terms
Series L	January 24, 2018; December 10, 2018*; May 12, 2020*, December 1, 2020*	1,235.937	1224.979	1168.606	22.486	1191.092	1234.166	Annual interest of 2.50%.	On January 5 of 2023 until 2028 (including).	On January 5 every year from 2019 until 2028 (including)	Not Linked	No	Subject to certain terms
Total		3,803.472	2,836.047	2,747.376	34.770	2,782.146	2,931.234						

(*) On these dates the debenture series were expanded. The information appearing in the table refers to the full series.

(**) As of September 30, 2021, the Company's debentures (Series H, I, K, and L) are material and constitute more than 5% of the Company's total liabilities as presented in the Financial Statements. Similarly, as of September 30, 2021, the Company's net debt to adjusted EBITDA[9] ratio was 2.03 including the total interest accrued in the books. There was no cause for early redemption in the Report Period.

2. Details regarding the trustee:

Series	Name of the trust company	Name of responsible person for the debentures	Contact	Address for delivery of documents
Series H	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series I	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series J	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series K	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il	48 Menachem Begin Road, Tel Aviv

[9] The net debt to adjusted EBITDA ratio is the ratio between the Company's net debt to the adjusted EBITDA in a period of 12 consecutive months, when neutralizing one-time events. In this respect, "net debt" is defined as credit and loans from banking corporations and others (with no undertaking for leases deriving from the implementation of the provisions in IFRS 16), and undertakings for debentures, less cash and cahs equivalents and current investments in marketable securities. "Adjusted EBIDTA" – see the definition in Section 4.1 above.

Series	Name of the trust company	Name of responsible person for the debentures	Contact	Address for delivery of documents
			Tel: 03-6374354	6618001
Series L	Strauss Lazer, Trust Company (1992) Ltd.	Ori Lazer	email: ori@slcpa.co.il Tel: 03-6237777	17 Yitzchak Sadeh Street, Tel Aviv 5613824

3. Details regarding the rating of the debentures:

Series	Name of rating company	Rating as of the issue date	Rating as of the Report date	Additional ratings between the issue and Report date		Details regarding the intention of the rating company to change the rating
				Rating dates[1]	The rating	
Series H	Maalot Standard & Poor's Ltd. ("**Maalot**")	A+	A	06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	In August 2021, Maalot updated the Company's rating forecast from A with a negative outlook to a rating of A with a stable outlook.
Series I	Maalot	A+	A	06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series J	Maalot	A+	A	08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series K	Maalot	A+	A	08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series L	Maalot	A+	A	01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	

(1) In June 2014, August 2014, January 2015, September 2015, March 2016, August 2016, June 2017, January 2018, June 2018, August 2018 and December 2018, Maalot ratified the Company's A+ rating with a stable outlook. In March 2019, Maalot updated the Company's rating forecast from A+ with a stable outlook to a rating of A+ with a negative outlook. In August 2019, Maalot updated the Company's rating forecast from A+ with a negative outlook to a rating of A with a negative outlook. In May 2020, August 2020, and November 2020, Maalot ratified the Company's rating of A with a negative outlook. In August 2021 Maalot ratified the Company's rating A and updated its outlook to a stable outlook.

4. Additional undertakings:

4.1. The Company's debentures (Series H to L) are not secured and include, in addition to accepted terms and undertakings, the following undertakings:

a. A negative pledge undertaking, subject to certain exceptions. Failure to comply with this undertaking shall be deemed a cause for acceleration.

b. An undertaking not to distribute more than 95% of the profits suitable for distribution under the Companies Law (the "**Profits**"); provided that (1) should the Company's net debt to EBITDA[8] ratio exceed the ratio of 3.5:1, the Company shall not distribute more than 85% of the Profits; (2) should the Company's net debt to EBITDA ratio exceed 4:1, the Company shall not distribute more than 70 of the Profits; and (3) should the Company's net debt to EBITDA ration exceed 5:1, or 4.5:1 during four consecutive quarters, the Company shall not distribute dividends.

c. And undertaking to rate the debentures through a rating company (insofar as this is under the Company's control).

d. An undertaking to pay additional interest of 0.25% for a two-point decrease in the rating of the debentures Series H to K, and 0.5% for a two point decrease in the rating of debentures Series L, and additional interest of 0.25% for any one point decrease in the rating of the debentures until the maximum addition of 1%, compared to their rating before their issue.

e. The Company's undertaking not to issue additional debentures of any series should the Company not meet the financial criteria, or if such issue would cause a decrease in the rating of the debentures.

4.2. In addition, the Company's debentures include events of default, including:

a. Accelerating a different debt of the Company (cross default) by a non-supplier lender, except with respect to a debt of NIS 150 million or less. Such debt acceleration restriction shall not apply to a cross default caused by a different series of Company debentures.

b. A case where the Company shall cease to be active in the cellular communications area and/or ceased to hold its Cellular License for a period exceeding 60 days.

c. Trading suspension of the debentures on the Tel Aviv Stock Exchange, for a period exceeding 45 days.

d. Making a distribution that does not comply with the Company's undertaking with respect to the restrictions on distributing profits.

e. Failure to rate the debentures for a period exceeding 60 days.

f. A court request or order to stay proceedings against the Company or submitting a motion for a creditors settlement.

g. Selling a substantive part of the Company's assets or a merger (except for certain exceptions).

h. Failure to publish financial statements on time.

i. A net debt to EBITDA ratio that exceeds 5:1, or that exceeds 4.5:1 during four consecutive quarters.

j. Failure to comply with the Company's undertaking not to create any pledges.

k. A material deterioration in the Company's business compared to the condition thereof on the issue date of the debentures, and real concern that the Company would not be able to repay the debentures on time.

l. A substantial concern that the Company shall not meet, its material obligations towards the debenture holders.

m. Including a note in the Company's financial statements regarding a concern of the Company continued existence as a "going concern" for a period of two consecutive quarters.

n. Violating the Company's undertaking with respect to the issue of additional debentures.

Cellcom Israel Ltd.

Consolidated Financial Statements

As at December 31, 2021
(Audited)

Consolidated Statements of Financial Position

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The accompanying audit report is a non-binding translation into English of the original audit report published in Hebrew. The version in Hebrew is the approved text.

Auditor's Report
to the Shareholders of
Cellcom Israel Ltd.

We have audited the accompanying consolidated statements of financial position of Cellcom Israel Ltd. ("the Company") as of December 31, 2021 and 2020, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three yearsin the period ended December 31, 2021. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated companies, whose assets included in consolidation constitute approximately 1% and 2% of total consolidated assets as of December 31, 2021 and 2020, respectively, and whose revenues included in consolidation constitute approximately 13% and 2% of total consolidated revenues for each of the years then ended, respectively. Furethemore, we did not audit the financial statements of equity accounted investees, the total investment amounted to approximately NIS 133 million and NIS 130 million as of December 31, 2021 and 2020, respectively, and the Company's share in their losses amounted to approximately NIS 26 million and NIS 23 million for each of the years then ended, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar, as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2021 and 2020, and the results of their operations, changes in equity and their cash flows for each of the three yearsin the period ended December 31, 2021 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2021, and our report dated March 9, 2022 included an unqualified opinion on the effective maintenance of those components.

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Tel-Aviv, Israel
March 9, 2022

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

The accompanying audit report is a non-binding translation into English of the original audit report published in Hebrew. The version in Hebrew is the approved text.

AUDITORS' REPORT
to the shareholders of
CELLCOM ISRAEL LTD
With regard to audit of internal controls over financial reporting pursuant to section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal controls over financial reporting of Cellcom Israel Ltd and its subsidiaries (hereinafter together: "the Company") as of December 31, 2021. These control components have been determined as explained in the next paragraph. The Company's management and Board of Directors are responsible for maintaining effective internal control over financial reporting, and for an assessment of the effectiveness of components of internal controls over financial reporting, which is enclosed with the periodic report as of the said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

As noted in the assessment of effectiveness by the Board of Directors and management, that assessment did not address components of internal control over financial reporting of Golan Telecom Ltd, whose assets and revenue included in consolidation represent 1% and 13%, respectively, of the total assets and revenue in the consolidated financial statements as of December 31, 2021 and the year then ended. Accordingly, our audit also did not address components of internal control over financial reporting of Golan Telecom Ltd.

The components of internal control over financial reporting which we audited were determined in accordance with Israeli Auditing Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereafter: "Israel Auditing Standard 911"). Those Components are: (1) Entity-level control, including controls over the process of preparation and closing of financial reporting and general controls over information technology; (2) controls over revenue; (3) controls over expenses; (4) controls over payroll; (5) controls over the tax process (all the above together hereinafter - "the audited control components").

We have conducted our audit in accordance with Israel Audit Standard 911. This standard requires us to plan and perform the audit to identify the audited control components, and to achieve reasonable assurance whether these control components have been effectively maintained in all material aspects. Our audit consisted of an understanding of internal control over financial reporting, identification of the audited control components, assessment of the risk of material weakness in the audited control components, as well as review and assessment of the effectiveness of design and operation of said control components, based on the assessed risk. Our audit, with regard to the aforementioned control components, also consisted of other procedures we deemed necessary under the circumstances. Our audit is only in reference to the audited control components, unlike internal control of all material processes related to financial reporting, and therefore our opinion only refers to the audited control components. Further, our audit did not refer to mutual influence among audited control components and non-audited ones, and therefore our opinion does not take into account such potential influence. We believe that our audit provides an appropriate basis for our opinion within the aforementioned context.

Because of its inherent limitations, internal control over financial reporting in general and certain components thereof in particular, may not prevent or detect misstatement. Also, projections of any

evaluation of the effectiveness of specific controls or internal control over financial reporting overall to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material aspects, the audited control components as of December 31, 2021.

We have also audited, in accordance with generally accepted audit standards in Israel, the Company's consolidated financial statements as of December 31, 2021 and 2020, and for each of the three years ended on December 31, 2021, and our report dated March 9, 2022 included our unqualified opinion of said financial statements.

Tel Aviv, Israel
March 9, 2022

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, Derech Menachem Begin 146, Tel-Aviv 6492103, Israel,
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Consolidated Statements of Financial Position

	Note	December 31, 2020	December 31, 2021
		NIS millions	
Current assets			
Cash and cash equivalents	9	719	**644**
Current deposits		429	**23**
Trade receivables	10	985	**927**
Current tax assets	30	2	**12**
Other receivables	10	39	**44**
Deferred expenses - rights of use	31C	52	**62**
Inventory	11	73	**88**
		2,299	**1,800**
Non-current assets			
Trade and other receivables	10	183	**163**
Deferred expenses - rights of use	31C	315	**327**
Property, plant and equipment, net	12	1,402	**1,383**
Intangible assets and others, net	13	2,188	**2,129**
Investments in equity accounted investees	8	131	**134**
Right of use assets, net	14	639	**629**
Deferred tax assets	31	-	**5**
		4,858	**4,770**
		7,157	**6,570**
Current liabilities			
Current maturities of debentures and loans from financial institutions	19	514	**383**
Current taxation liabilities	30	-	**7**
Current maturities of lease liabilities	14	214	**184**
Trade payables and accrued expenses	15	768	**737**
Provisions	16	176	**109**
Other payables, including derivatives	17	257	**290**
		1,929	**1,710**
Non-current liabilities			
Long-term loans from financial institutions	19	50	**-**
Debentures	19	2,723	**2,373**
Long-term lease liabilities	14	457	**478**
Provisions	16	30	**29**
Other long-term liabilities	18	41	**1**
Liability for employee rights upon retirement, net	20	11	**13**
Deferred tax liabilities	30	36	**45**
		3,348	**2,939**
		5,277	**4,649**
Equity			
Total equity	21	1,880	**1,921**
		7,157	**6,570**

The accompanying notes are an integral part of these consolidated financial statements.

March 9, 2022			
Date of approving the financial statements	Doron Cohen Chairman of the board	Daniel Sapir CEO	Shai Amsalem CFO

Consolidated Statements of Income

		For year ended December 31,		
		2019	2020	2021
	Note	NIS millions		
Revenues	24	3,708	3,676	**4,100**
Cost of revenues	25	(2,725)	(2,800)	**(2,963)**
Gross profit		983	876	**1,137**
Selling and marketing expenses	26	(610)	(580)	**(666)**
General and administrative expenses	27	(300)	(330)	**(301)**
Credit losses		(29)	(27)	**(5)**
Other income (expenses), net	28	(20)	38	**44**
Operating profit (loss)		24	(23)	**209**
Financing income		49	10	**3**
Financing expenses		(193)	(182)	**(168)**
Financing expenses, net	29	(144)	(172)	**(165)**
Share in losses of equity accounted investees		(10)	(14)	**(5)**
Profit (loss) before taxes on income		(130)	(209)	**39**
Tax benefit (taxes on income)	30	23	39	**(12)**
Profit (loss) for the year		(107)	(170)	**27**
Profit (loss) per share				
Basic profit (loss) per share (in NIS)	21	(0.90)	(1.11)	**0.17**
Diluted profit (loss) per share (in NIS)		(0.90)	(1.11)	**0.16**
Weighted-average number of shares used in the calculation of basic loss per share (in shares)		118,376,455	153,751,724	**162,775,715**
Weighted-average number of shares used in the calculation of diluted loss per share (in shares)		118,376,455	153,751,724	**163,672,339**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For year ended December 31,		
	2019	2020	2021
	NIS millions		
Profit (loss) for the year	(107)	(170)	**27**
Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to profit or loss			
Changes in fair value of cash flow hedges transferred to profit or loss, net of tax	-	(2)	**1**
Total other comprehensive income for the year that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax	-	(2)	**1**
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Re-measurement of defined benefit plan, net of tax	(4)	2	**(2)**
Total other comprehensive income (loss) for the year that will not be transferred to profit or loss, net of tax	(4)	2	**(2)**
Total other comprehensive loss for the year, net of tax	(4)	-	**(1)**
Total comprehensive profit (loss) for the year	(111)	(170)	**26**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

	Equity attributed to the Company's shareholders							
	Share capital	share premium	receipts on account of share options	Capital reserve	retained earnings	Total	Non-controlling interest	Total equity
	NIS millions							
Balance as of January 1, 2019	1	325	10	-	1,339	1,675	2	1,677
Comprehensive loss for the year								
Loss for the year	-	-	-	-	(107)	(107)	-	(107)
Other comprehensive loss for the year, net of tax	-	-	-	-	(4)	(4)	-	(4)
Transactions with owners recognized directly in equity								
Share based payments	-	-	-	-	8	8	-	8
Equity offering	1	283	25	-	-	309	-	309
Expiration of share options	-	10	(10)	-	-	-	-	-
Exercise of share options	-	5	(1)	-	-	4	-	4
Balance as of December 31, 2019	**2**	**623**	**24**	**-**	**1,236**	**1,885**	**2**	**1,887**
Comprehensive loss for the year								
Loss for the year	-	-	-	-	(170)	(170)	-	(170)
Other comprehensive profit (loss) for the year, net of tax	-	-	-	(2)	2	-	-	-
Transactions with owners recognized directly in equity								
Share based payments	-	-	-	-	20	20	-	20
Option issue			5	-	-	5	-	5
Deduction of non-controlling interest due to loss of control in subsidiaries	-	-	-	-	-	-	(2)	(2)
Exercise of share options	-	169	(29)	-	-	140	-	140
Balance as of December 31, 2020	**2**	**792**	**-**	**(2)**	**1,088**	**1,880**	**-**	**1,880**
Comprehensive loss for the year								
Profit for the year	**-**	**-**	**-**	**-**	**27**	**27**	**-**	**27**
Other comprehensive profit (loss) for the year, net of tax	**-**	**-**	**-**	**1**	**(2)**	**(1)**	**-**	**(1)**
Transactions with owners recognized directly in equity								
Share based payments	**-**	**-**	**-**	**-**	**15**	**15**	**-**	**15**
Balance as of December 31, 2021	**2**	**792**	**-**	**(1)**	**1,128**	**1,921**	**-**	**1,921**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	For year ended December 31,		
	2019	2020	2021
	NIS millions		
Cash flows from operating activities:			
Profit (loss) for the year	(107)	(170)	**27**
Adjustments for:			
Depreciation and amortization	898	924	**896**
Share-based payments	8	20	**15**
Gain on sale of property, plant and equipment, intangible assets and others	(8)	-	**-**
Net change in fair value of investment property	6	7	**7**
Tax benefit (tax expenses)	(23)	(39)	**12**
Financing expenses, net	144	172	**165**
Other income (expenses)	3	7	**(8)**
Share in losses of equity accounted investees	10	14	**5**
Changes in operating assets and liabilities:			
Change in inventory	28	(7)	**(15)**
Change in trade receivables (including long-term amounts)	80	125	**54**
Change in other receivables (including long-term amounts)	(20)		**(77)**
Change in receivables (including long-term receivables)	33	-	**5**
Change in trade payables, accrued expenses and provisions	(27)	53	**(23)**
Change in other liabilities (including long-term amounts)	23	(51)	**2**
Payments for derivative hedging contracts, net	(10)	(3)	**(5)**
Income tax paid	(12)	(9)	**(8)**
Income tax received	10	-	**-**
Net cash from operating activities	1,036	1,043	**1,052**
Cash flows used in investing activities			
Acquisition of property, plant and equipment	(324)	(296)	**(366)**
Acquisition of intangible assets and others	(233)	(203)	**(232)**
Acquisition of equity accounted investee	(157)	(3)	**-**
Change in current investments, net	(49)	89	**407**
Receipts from other derivative contracts, net	9	1	**(2)**
Proceeds from sale of property, plant and equipment, intangible assets and others	181	-	**-**
Interest received	13	5	**1**
Acquisition of subsidiary, less cash purchased	-	(608)	**-**
Net cash used in investing activities	(560)	(1,015)	**(192)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (cont'd)

	For year ended December 31,		
	2019	2020	2021
	NIS millions		
Cash flows used in financing activities			
Payments for derivative contracts, net	(2)	(6)	**2**
Receipt of long-term loans from financial institutions	150	-	**-**
Payments for long-term loans from financial institutions	(212)	(212)	**(188)**
Repayment of debentures	(504)	(417)	**(389)**
Proceeds from issuance of debentures, net of issuance costs	-	583	**-**
Repurchase of own debentures	(10)	-	**-**
Interest paid	(151)	(130)	**(123)**
Equity offering	309	5	**-**
Proceeds from exercise of share options	4	140	**-**
Payment of principal of lease liabilities	(256)	(228)	**(235)**
Net cash used in financing activities	(672)	(265)	**(933)**
Changes in cash and cash equivalents	(196)	(287)	**(75)**
Cash and cash equivalents as at the beginning of the year	1,202	1,006	**719**
Effects of exchange rate changes on cash and cash equivalents	-	-	**(2)**
Cash and cash equivalents as at the end of the year	1,006	719	**644**

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Reporting Entity

A. Cellcom Israel Ltd. ("the Company") is a company incorporated and domiciled in Israel and its official address is 10 Hagavish Street, Netanya 4250708, Israel. The consolidated financial statements of the Group as at December 31, 2021, comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's holdings in included entities. The Group operates and maintains a cellular mobile telephone system in Israel and provides cellular telecommunications services, landline telephony services, internet services, international calls services, television over the internet services and transmission services. The Company is controlled by Koor Industries Ltd. (directly and through agreements with other shareholders of the Company), a wholly owned subsidiary of Discount Investment Corporation Ltd. ("DIC."). The Company's shares are traded on the Tel Aviv Stock Exchange (TASE). With respect to delisting the Company's shares from trading on the New York Stock Exchange and the cancellation of the listing and the termination of the reporting obligations under the US Securities Law see Note 35 hereunder.

B. **Update on the Corona virus measures and possible implication**

In the end of 2019, the COVID-19 virus broke out in China, which spread in early 2020 to many countries around the world, including Israel (the "COVID-19 Crisis"). In March 2020, the World Health Organization announced that COVID-19 was a pandemic. The COVID-19 Crisis is an exceptional event with macro-economic implications. Following this event, since March 2020, the State of Israel (like many other countries) took significant measures in an attempt to prevent the spread of the virus. These measures included, inter alia, restrictions on citizen's movement and employment, restrictions on gatherings and events, restrictions on commercial activities, closing of borders between countries, closing leisure and cultural venues and a significant reduction in the presence of employees at workplaces.

The Group, which belongs to a critical infrastructure sector that requires continued operation of the services for customers who are residents of Israel, continued providing services to all of its customers, at a high level of quality. However, the imposition of horizontal restrictions that include, inter alia, closing the skies in Israel and around the world and imposing restrictions on citizens' traffic in Israel and around the world, from the start of the COVID-19 Crisis, led to a significant decrease in international inbound and outbound tourism and a significant adverse effect on the Group's revenues from roaming. In 2021 the Company continued experiencing a significant decline in revenues from roaming services of outgoing and incoming tourism compared to the period before Covid-19, but as result of partial return of outgoing tourism the Company recorded an increase compared to the corresponding period of the previous year. The Company estimates that the material adverse effect from roaming services on its results should become more moderate as limitations on incoming and outgoing traffic in Israel are lifted. With respect to limitations on retail and closing of shopping malls – in light of opening the Israeli market, the impact on the Company's results in the Report period was

Note 1 - Reporting Entity (cont'd)

Update on the Corona virus measures and possible implication (cont'd)

The Company examined its financing sources and liquidity and estimates that it is financially sound for contending with the implications of the crisis among others due to the diversity of its activity areas and the scope of liquid balances. The Company examined the impacts of the crisis on the balances existing in the report on the Company's financial position including current assets, inventory, fixed assets and the effect of changes in the long term lease agreements and did not make adjustments in material amounts due to the crisis. However, as we are dealing with an ongoing crisis situation that is not under the Company's control, which is characterized by uncertainty, inter alia with regards to the conclusion of the pandemic, as of the date of the financial statements there is no certainty regarding the scope of the impact on the Company and on the market in its entirety, among others due to the condition of the markets and stages of contending with the pandemic in Israel and the world, unemployment levels, private consumption levels, an increase in inflation levels in Israel and the world, and concern for a local or global recession, or an additional coronavirus outbreak. Such sweeping effects, should they persist, all or part, could adversely affect the Company's business and results.

Note 2 - Basis of Preparation of the Financial Statements

A. Statement of compliance

The consolidated financial statements have been prepared by the Group in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by the Company's Board of Directors on March 9, 2022.

B. Functional and presentation currency

These consolidated financial statements are presented in Israeli Shekels ("NIS"), which is the Group's functional currency, and are rounded to the nearest million unless otherwise indicated. NIS is the currency that represents the primary economic environment in which the Group operates.

C. Basis of measurement

These consolidated financial statements have been prepared on the basis of historical cost except for the following assets and liabilities: current investments and derivative financial instruments that are measured at fair value through profit or loss, investment property that are measured at fair value, deferred tax assets and liabilities, provisions, assets and liabilities in respect of employee benefits and Investments in associates.

For further information regarding the measurement of these assets and liabilities see Note 3, regarding Significant Accounting Policies.

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The preparation of accounting estimates used in the preparation of the Group's financial statements requires that management of the Company makes assumptions regarding circumstances and events that involve considerable uncertainty. Company Management prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about estimates, uncertainty and critical judgments about provisions and contingent liabilities, is described in Notes 16 and 32. In addition, information about critical estimates, made while applying accounting policies and that have the significant effect on the consolidated financial statements are described below:

Impairment testing of trade and other receivables
The financial statements include an impairment loss in trade and other receivables which properly reflect, according to management's estimation, the potential loss from non-recoverable amounts. The Group provides for impairment loss based on its experience in collecting past debts, as well as on information on specific debtors. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. See also Note 23.

Impairment testing and useful life of assets
The Group regularly reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. See also Note 3(I).
The useful economic life of the Group's assets is determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. The useful economic life of capitalized customer acquisition costs is based on the expected service period from these contracts. See also Notes 3(D) and 3(F).

Impairment testing of goodwill
The Group reviews a cash generating unit containing goodwill for the purpose of testing it for impairment at least once a year. Determining the recoverable amount requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows which represents market estimates as for the time value of the money and the specific risks that are related to the cash-generating unit. Determining the estimates of the future cash flows is based on management past experience and management best estimates as for the economic conditions that will exist over the rest of the remaining useful life of the cash generating unit. Further detaNIS are given in Note 3(I).

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments (cont'd)

Legal claims
In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the Group takes into consideration the opinion of its legal counsels and their best professional judgment, the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates. See also Note 32.

Uncertain tax positions
When assessing amounts of current and deferred taxes, the Group takes into consideration the effect of the uncertainty that its tax positions will be accepted and the risk of it incurring any additional tax and interest expenses.

The Group is of the opinion that the cumulative tax liability is fair for all the years in respect of which final tax assessments have not yet been received, based on an analysis of a number of matters including interpretations of tax laws and the Group’s past experience. This assessment is based on estimates and assumptions that may also include assessments and exercising judgment regarding future events. It is possible that new information will become known in future periods that will require the Group to change its estimate regarding the tax liability that was recognized, and any such changes will be expensed immediately in that period. See also Note 30.

Recognition of deferred tax asset in respect of tax losses
The Group assesses the probability that in the future there will be taxable profits against which carried forward losses can be utilized and accordingly the Group recognizes (or not recognizes) a deferred tax asset in respect of losses carried forward. In the absence of certainty for the existence of taxable income, deferred taxes are not recognized as an asset in the carrying amount. The possible effects of this estimate is the recognition or cancellation of deferred tax assets in statement of income.
For information on losses for which a deferred tax asset was recognized, see Note 30 regarding taxes on income.

Determining the lease term and the discount rate of a lease liability
In order to determine the lease term, the Group takes into consideration the period over which the lease is non-cancellable, including renewal options that it is reasonably certain it will exercise and/or termination options that it is reasonably certain it will not exercise. In addition, The Group discounts the lease payments using its incremental borrowing rate. The Possible effects of this estimate is an increase or decrease in the right-of-use asset and lease liability and in depreciation and financing expenses in subsequent periods. See also Note 14.

On June 27, 2021, the Israeli Ministry of Communications, or MOC, resolved to shutdown the 2G and 3G networks (the "Old Technologies") on December 31, 2025 (the "Due Date") (with an option to advance such date to January 1, 2025, subject to certain conditions) and certain interim arrangements until the Due Date, as part of the MOC intention to promote mobile communications infrastructure in Israel and turn radio frequency resources for the strengthening of 4G and 5G technologies. Further to this decision, the MOC ordered the extension of the allocations of the frequency bands allocated for the Old Technologies, to be used also with more advanced technologies, until 2030 year-end.

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments (cont'd)

As a result, the Company changed the useful life estimate of the equipment used by the Company to operate 2G and 3G networks until 2025 year-end, and extended the amortization period of its license fees regarding 2G and 3G frequencies until 2030 year-end.

The effect of those changes on the financial statements in current year and subsequent years are following:

	For the year ended December 31,					
	2021	**2022**	**2023**	**2024**	**2025**	**2026 - 2030**
Decrease (increase) in depreciation expenses	12	12	3	(3)	(10)	(14)

E. Exchange rates and known Consumer Price Indexes are as follows:

	Exchange rates of US$	Consumer Price Index (points)*
As of December 31, 2021	**3.110**	**228.70**
As of December 31, 2020	3.215	223.34
As of December 31, 2019	3.456	224.67
Change during the year:		
Year ended December 31, 2021	**(3.27)%**	**2.40%**
Year ended December 31, 2020	(6.97)%	(0.59)%
Year ended December 31, 2019	(7.79)%	0.30%

*According to 1993 base index.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group for all periods presented in these consolidated financial statements.

A. Basis of consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies applied on subsidiaries have been changed when necessary, in order to ensure consistency with the accounting policies adopted by the Group.

2. Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. All other components of non-controlling interests are measured at fair value as of date of purchase unless a different measurement basis is required in accordance with IFRS.

Allocation of profit and loss and other comprehensive income to the shareholders

Profit and loss are allocated to the owners of the Company and the non-controlling interests. Total profit and loss is allocated to the owners of the Company and the non-controlling interests even if the result is a negative balance of non-controlling interests.

Transactions with non-controlling interests, not resulting in loss of control

Transactions with non-controlling interests in subsidiaries not resulting in loss of control, are accounted for as equity transactions.

3. Realizing rights in subsidiaries

When the Group losses control of a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

4. Investment in associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has significant influence, in most cases expressed in holding between 20% and 50% of the voting rights. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Joint ventures are joint arrangements in which the Group has rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group’s share of the income and expenses in profit and loss of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Long-term interests that are in substance form part of the net investment, such as long-term loans that their repayment is not expected and is unlikely to occur in the foreseeable future, are first accounted for in accordance with the instructions of IFRS 9 and then apply the instructions of IAS 28 with respect to the remainder of those interests, so that the long-term interests are in the scope of both IFRS 9 and IAS 28.

5. Transactions eliminated on consolidation

Intra-group balances and transactions in the Group, and any unrealized income and expenses arising from intra-group transactions, were eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group’s interest in these investments.

B. Translation of balances and transactions in foreign currency

Transactions in foreign currency other than the operating currency (hereinafter - foreign currency) are translated into the operating currency at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated to NIS at the prevailing foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to NIS at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognized in profit and loss, except when attributed to other comprehensive profit as cash flow hedging.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition and measurement of financial assets
The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category
Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost or fair value through profit and loss.
Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit and loss:

a. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b. The contractual terms of the financial asset give rise to cash flow entitlement on defined dates that are solely payments of principal and interest on the outstanding principal balance.

All financial assets not classified as measured at amortized cost or financial assets designated at fair value through profit and loss, are measured at fair value through profit and loss. On initial recognition, the Group designates financial assets at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

Assessment of the business model for debt assets

The Group assesses the objective of the business model within which the financial asset is held on the level of the portfolio, since this best reflects the manner by which the business is managed and information is provided to management. The following considerations are taken into account in the assessment of the Group's business model:

1. The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
2. How the performance of the business model and the financial assets within the model is evaluated and reported to the entity's key management people;
3. The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

Assessment whether cash flows are solely payments of principal and interest

For the purpose of assessing whether the cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

1. Contingent events that would change the timing or amount of the cash flows;
2. Terms that may change the stated interest rate, including variable interest;
3. Extension or prepayment features; and
4. Terms that limit the Group's claim to cash flows from specified assets.

Subsequent measurement and gains and losses

Financial assets at fair value through profit and loss
These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit and loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit and loss. Any gain or loss on derecognition is recognized in profit and loss.
Financial assets at amortized cost comprise cash and cash equivalents and trade and other receivables.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include: loans and borrowings from banks and others, marketable debt instruments, finance lease liabilities, and trade and other payables.

Initial recognition of financial liabilities
The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Subsequent measurement of financial liabilities
Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.
Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Material modification in terms of debt instruments
An exchange of debt instruments having substantially different terms, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Furthermore, a substantial modification of the terms of an existing financial liability, or an exchange of debt instruments having substantially different terms between an existing borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value.

In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit and loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments, therefore, as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(2) Non-derivative financial liabilities (cont'd)

Nonmaterial modification in terms of debt instruments
In a non-substantial modification in terms (or exchange) of debt instruments, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit and loss.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle the financial asset and financial liability on a net basis or to realize the asset and settle the liability simultaneously.

(3) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments for the purpose of hedging currency risks and interest risks, as well as derivatives not used for hedging.

Hedge accounting
The Group designates certain derivatives as hedging instruments, in order to hedge changes in cash flows referring to transactions that are expected on a high level, that derive from changes in foreign currency exchange rates and changes in the index component and in the cash flow for loans linked to the index.

On the date of creating the hedging ratios, the Group documents the purpose of its risk management and strategy for performing the hedging. The Group also documents the economic relations between the hedged item and the hedging instrument, and as part of this, whether the changes in cash flows of the hedged item and of the hedging instrument are expected to offset each other.

Measuring derivative financial instruments
Derivatives financial instruments are recognized initially at fair value of the derivative contract, and remeasured at fair value in subsequent periods. Attributable transaction costs are recognized in profit and loss as incurred. Changes in fair value are accounted for as described below:

Fair value hedging
Changes in fair value of a derivative financial instruments used for hedging are recognized to profit and loss, together with any change in fair value for the hedged item, referring to the hedged risks.

Cash flow hedging
When a derivative instrument is designated as a hedging instrument in cash flow hedging, the effective part of the changes in the fair value of the derivative are recognized in other comprehensive income, directly to a hedging reserve, and limited to the cumulative change in the fair value of the hedged item (at present value), from the date of creating the hedge. For the non-effective part, the change in fair value is immediately recognized in profit and loss.

The Group designates as a hedging device in cash flow hedging ratios the change in fair value of all forward contracts.

Note 3 - Significant Accounting Policies (cont'd)

(3) Derivative financial instruments, including hedge accounting (cont'd)

When the result of the expected transaction is recognition of a nonfinancial item (for example, inventory), the amounts accumulated in the hedging reserve and in the hedging cost reserves are included in the initial cost of the nonfinancial item, on the date of its recognition. For all other expected transaction hedging, the amounts accumulated in the hedging reserve and in the hedging cost reserve are reclassified in profit and loss in that period, or those periods, in which the expected future cash flows that are hedged affect profit and loss.

If the hedging no longer meets the criteria for account hedging, or the hedging instrument is sold, expires, is cancelled or realized, then the accounting by hedge accounting is ceased prospectively. When the accounting by hedge accounting is ceased, the amounts accumulated in the past in the hedging reserve and in the hedging cost reserve remain in the reserve, until the date on which they are included in the initial cost of the nonfinancial item (for hedging of transactions the results of which is a recognition of a nonfinancial item), or until the date on which they are reclassified in profit and loss in the period, or periods, in which the expected future cash flows that are hedged affect profit and loss (for hedging of other cash flows).

(4) Assets and liabilities linked to the Israeli CPI that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase/decrease in the CPI.

(5) Issuance of parcel of securities

The consideration received from the issuance of a parcel of securities is attributed initially to financial liabilities that are measured each period at fair value through profit and loss, and then to financial liabilities that are measured only upon initial recognition at fair value. The remaining amount is the value of the equity component. When a number of equity components are issued in a parcel of securities, the consideration of the parcel attributes to their relative fair value. The fair value of each of the components of the package, are based on the average market prices of the securities three business days after their issuance.

Direct issuance costs are attributed to the specific securities in respect of which they were incurred. Joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the parcel, as described above. Issuance costs that allocated to equity components are presented net from equity.

D. Fixed asset

Fixed asset items are presented at cost less accumulated depreciation and accumulated impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed asset (cont'd)

(1) Recognition and measurement

The cost of fixed assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site), and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Communications networks consist of several significant components with different useful lives. Each component is treated separately and is depreciated over its estimated useful life.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized immediately in profit and loss.

Gains or losses for realization of fixed assets are determined by comparing the net received to book value, and recognized within "other (income) expenses" in statement of income.

(2) Subsequent costs

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit and loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed asset (cont'd)

(3) Depreciation (cont'd)

The annual depreciation rates for the current and comparative periods are as follows:

	%
Communications network	5-15
Control and testing equipment	15-25
Equipment and infrastructure for television services	15-33
Vehicles, Computers, Furniture and Landline communications equipment	6-33

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the expected lease terms.

Depreciation methods, useful lives and residual values are reviewed at least once per year and updated as necessary.

E. Rights of use of communications lines and right of use of fiber-optic infrastructure

Accounting policy applicable before January 1, 2019

The Group implements IFRIC 4, "Determining Whether an Arrangement Contains a Lease", which defines criteria for determining at the beginning of the arrangement, whether the right to use asset constitutes a lease arrangement.

According to IFRIC 4, as mentioned above, acquisition transactions of irrevocable rights of use of underwater cables capacity and right of use of fiber-optic infrastructure are treated as service receipt transactions. The amount which was paid for the rights of use of communications lines and right of use of fiber-optic infrastructure are recognized as a prepaid expense and is amortized on a straight-line basis over the period stated in the agreements, including the option period, which constitutes the estimated useful life of those capacities.

Accounting policy applicable as from January 1, 2019

The Group implements IFRS 16, "Determining Whether an Arrangement Contains a Lease", which defines criteria for determining at the beginning of the arrangement, whether the right to use asset constitutes a lease arrangement. As a result, transactions of irrevocable rights of use of underwater cables capacity and right of use of fiber-optic infrastructure hare treated as transactions for receipt of service and therefore there was no change in accounting treatment.

F. Intangible assets and others

(1) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets.
In subsequent periods goodwill is measured at cost less accumulated impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

F. Intangible assets and others (cont'd)

(2) Development activities

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized to intangible assets only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has the intention and sufficient financing resources to complete development and to use or sell the asset. Direct development costs associated with internally developed information system software, and payroll costs for employees devoting time to the software projects, incurred during the application development stage, are capitalized and recognized as an intangible asset. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods. Development costs that were capitalized are depreciated from the point in time when the asset is available for use, i.e., when it is the location and condition necessary in order to operate as intended by management, over its useful life.
Development costs not yet available for use are examined once per year in order to identify impairment, according to IFRS 36 “Impairment of Assets”.

(3) Incremental customer acquisition costs and customer maintenance costs

Incremental customer acquisition costs are capitalized to asset, when it is expected that the Group will recover these costs. Costs of obtaining a contract that would have been incurred regardless of the contract being obtained are recognized as an expense when incurred. Costs incurred to fulfill a contract with a customer are recognized as an asset when they: relate directly to a contract the Group can specifically identify; they generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognized as an expense when incurred.
Accordingly, incremental incentives and commissions paid to Group employees and resellers for securing contracts with customers, are recognized as intangible assets. In subsequent periods, customer acquisition costs are measured at cost less accumulated amortization according to the specific anticipated contract period and accumulated impairment losses.

(4) Other intangible assets

Customer and brand relationships that are formed upon the acquisition of subsidiaries have a finite useful life and are amortized according to the expected benefits rate from these assets in each period.

Other intangible assets and others - licenses and frequencies, software and information systems costs are measured at cost less accumulated amortization and accumulated impairment losses and including direct costs necessary to prepare the asset for its intended use.

(5) Subsequent expenditure

Subsequent expenditure is capitalized to intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss as incurred.

Note 3 - Significant Accounting Policies (cont'd)

F. Intangible assets and others (cont'd)

(6) Amortization

Amortization of an intangible asset spans its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit and loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since such method most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset. Goodwill and intangible assets having an indefinite useful life are not systematically amortized but are tested for impairment at least once a year.

Internally generated intangible assets are not systematically amortized as long as they are not available for use, i.e. they are not yet on site or in working condition for their intended use. Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

The annual amortization rates for the current and comparative periods are as follows:

	%	
Licenses and Frequencies	4-7	(mainly 4)
Information systems	25	
Software	15-25	
Customer acquisition costs	33-50	
Customer relationship and brand	10-16	

Amortization methods, useful lives and residual values are reviewed at least each year-end and adjusted if appropriate.

The Group examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

G. Investment property

Investment property is property (land or building – or part of a building – or both) held (by the owner or as a right of use assets) either to earn rental income or for capital appreciation or for both, and not used by the Group in production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

Furthermore, some of the rental properties that are leased by the Group are classified and treated as investment property.

Investment property is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. In subsequent periods the investment property is measured at fair value with any changes therein recognized in profit and loss.

Any gain or loss on disposal of an investment property is recognized in profit and loss under other income or other expenses, as relevant.

Note 3 - Significant Accounting Policies (cont'd)

H. Inventory

Inventory of cellular phone equipment, accessories and spare-parts are measured at the lower of cost and net realizable value. Cost is determined by the moving average method and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The Group periodically evaluates the condition and age of inventories and makes provisions for impairment of inventories accordingly.

I. Impairment

(1) Non-derivative financial assets

Financial assets and contract assets

The Group recognizes a provision to loss for expected credit losses on Financial assets that are debt instruments measured at amortized cost and for contract assets (as defined in IFRS 15).

The Group measures the provision for expected credit losses in respect of trade receivables and contract assets at an amount equal to the full lifetime credit losses of the instrument.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following events:

1. Significant financial difficulty of the issuer or borrower;
2. A breach of contract such as a default or payments being past due;
3. The restructuring of a loan or payment due to the Group on terms that the Group would not consider otherwise;
4. It is probable that the borrower will enter bankruptcy or other financial reorganization; or
5. The disappearance of an active market for a security because of financial difficulties.

Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(1) Non-derivative financial assets (cont'd)

Write-off

The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a de-recognition event.

(2) Fixed assets, other assets

Timing of impairment testing

Impairment testing for cash generating units (or group of cash generating units), to which goodwill has been attributed, is performed once per year, and at any time there is indication for impairment of the unit, or by compared the carrying value of the unit, including goodwill, to its recoverable amount.
Impairment of other non-financial assets is tested in case of events or changes in circumstance indicating that their carrying value shall not be recoverable.

Determining cash-generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Allocation of goodwill to cash generating units

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(2) Fixed assets, other assets (cont'd)

The Company's corporate assets

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one cash-generating unit. Corporate assets that cannot be allocated reasonably and consistently to cash-generating units are allocated to a group of cash-generating units if there are indications that a corporate asset may be impaired or indications of impairment in a group of cash-generating units, in which case the recoverable amount is determined for the group of cash-generating units that uses the corporate asset.

Recognition of impairment loss

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. As regards cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed in subsequent periods. In respect of other assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(3) Investments in associates

An investment in an associate and joint venture is tested for impairment when objective evidence indicates there has been impairment. Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate or joint venture, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows from operations of the associate or joint venture and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(3) Investments in associates (cont'd)

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or in the joint venture.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment’s carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

J. Employee benefits

(1) Post-employment benefits

Part of the Group's liability for post-employment benefits is covered by a defined contribution plan financed by deposits with insurance companies or with funds managed by a trustee. A defined contribution plan is a post-employment benefit plan under which the Group makes fixed deposits to a separate independent entity without the Group having a legal or constructive obligation to make further deposits. The Group's obligation of contribution to defined contribution pension plan is recognized as an expense in profit and loss in the periods during which services are rendered by employees. In addition, the Group has a net obligation in respect of defined benefit plan. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. This benefit is presented at present value deducting the fair value of any plan assets and is determined using actuarial assessment techniques which involves, among others, determining estimates regarding the capitalization rates, anticipated return on the assets, the rate of the increase in salary and the rates of employee turnover. There is significant uncertainty in respect to these estimates because of the long-term programs. For further information, see Note 20.

The Group recognizes remeasurements of net liabilities (assets) for a defined benefit to other comprehensive profit, in the period created. Interest costs and interest income on plan assets that were recognized in profit and loss are presented under financing income and expenses, respectively.

(2) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary retirement. Termination benefits for voluntary retirements are recognized as an expense if the Group has made an offer of voluntary retirement, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee benefits (cont'd)

(3) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

(4) Share-based payment and restricted stock unit transactions

The Group has several programs for share-based payment to employees, settled by equity instruments of the companies in the Group, whereby the Group receives services from employees in exchange for instruments of the Group. The grant date fair value of share-based payment and restricted stock units ("RSU") awards granted to employees are recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment and RSU awards that are conditional upon meeting service and non-market performance conditions, are adjusted to reflect the number of awards that are expected to vest. For share-based payment and RSU awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment and RSU awards are measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management’s best estimate, to consider exercise restrictions and behavioral considerations.

K. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

A provision for claims is recognized if, as a result of a past event, the Company has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Revenues derived from services, including cellular services, internet services, international calls services, fixed local calls, interconnect, roaming revenues, content and value added services, transmission services and television over the internet services, are recognized when the services are provided, in proportion to the stage of completion of the transaction and all other revenue recognition criteria are met.

Usually, the sale of equipment to the customer is executed with no contractual obligation of the client to consume services in a minimal amount for a predefined period. As a result, the Group refers to the sale transaction as a separate transaction and recognizes revenue from sale of equipment upon delivery of the equipment to the customer. Revenue from services is recognized and recorded when the services are provided.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
(b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
(c) The Group can identify the payment terms for the goods or services that will be transferred;
(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
(e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue (cont'd)

Identifying performance obligations
On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

(a) Goods or services (or a bundle of goods or services) that are distinct; or

(b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

In contracts with customers for the provision of various communication services in one package, the Group has identified more than one performance obligations in each contract with a customer, according to the services promised to the customer.

Option to purchase additional goods or services
An option that grants the customer the right to purchase additional goods or services constitutes a separate performance obligation in the contract only if the option grants the customer a material right it would not have received without the original contract.

Determining the transaction price
The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of determining the transaction price and the existence of a significant financing component.

Variable consideration
The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Group includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises the amount of the variable consideration included in the transaction price.

Allocating the transaction price to performance obligations
In a multiple performance obligations transaction, the transaction price is allocated between the components of the transaction according to the ratio of their stand-alone selling prices.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue (cont'd)

Existence of a significant financing component
In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time on the value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. When assessing whether a contract contains a significant financing component, the Group examines, inter alia, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the contract’s inception date. The financing component is recognized as other income over the period, which are calculated according to the effective interest method.

Revenues from long-term credit arrangements (more than 12 monthly payments) are recognized on the basis of the present value of future cash flows, discounted according to market interest rates at the time of the transaction. The difference between the original credit and its present value is recorded as other income (instead of interest income) over the credit period.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less, the Group applies the practical exemption included in the standard and does not separate a significant financing component.

Satisfaction of performance obligations
Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods or services to the customer.

Contract procurement costs
Incremental costs of obtaining a contract with a customer are recognized as an asset when the Group is expected to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred.

Warranty
In order to assess whether a warranty provides a distinct service to the customer and is therefore a distinct performance obligation, the Group examines, inter alia, the following characteristics: does the customer have the option to purchase the warranty separately; is the warranty required by law; the period of the warranty and the nature of the actions the Group promises to execute.

In respect to contracts with customers, the Group provides warranty services to customers in accordance with the contract, the Regulations of the Law or as is customary in the industry. Warranty services are provided to ensure the quality of the work and to meet the specifications agreed between the parties and do not constitute additional service provided to the customer. Therefore, the Group does not recognize the liability as a separate performance obligation, but treats it in accordance with the Instructions of IAS 37 and recognizes the provision for liability according to the estimated cost of the said services.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue (cont'd)

Principal vendor or agent
When the Group is a principal vendor it recognizes revenue in the gross amount of the consideration. If the Company is obligated to arrange that another party provides the goods or services than the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal vendor when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

M. Cost of revenues

Cost of revenue mainly includes equipment purchase costs, salaries and related expenses, value added services costs, royalties expenses, ongoing license fees, interconnection and roaming expenses, cell site leasing costs, depreciation and amortization expenses and maintenance expenses, directly related to services rendered.

The Group recognizes discounts from suppliers as a decrease in Cost of Sales. Therefore, discounts in respect of purchases that are added to the closing inventory balance are treated as inventory and the remainder as a decrease in Cost of Sales.

N. Advertising expenses

Advertising costs are expensed as incurred.

O. Lease payments

(1) Determining whether an arrangement contains a lease
On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

(a) The right to obtain substantially all the economic benefits from use of the identified asset; and
(b) The right to direct the identified asset's use.

For cell and switches sites lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.
For office buildings, warehouses, service centers, retail stores and motor vehicles lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to separate the components and account the lease component separately.

Note 3 - Significant Accounting Policies (cont'd)

O. Lease payments (cont'd)

(2) *Leased assets and lease liabilities*

Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments, and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments.

Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the Group is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

Variable lease payments that are linked to the CPI are initially measured by using the index known at the beginning of the lease, and are included in calculating the liability for lease. When there is a change in the cash flow of the lease as result of change to the index, the Group remeasures the liability for the lease based on updated contractual cash flows, as an adjustment to the right of use asset.

(3) *The lease term*

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively. According to past experience the Company estimated that the options for extending the contracts shall be exercised.

(4) *Depreciation of right-of-use asset*

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

• Cell and switches sites	4 years
• Office buildings, warehouses, service centers and retail stores	3 years
• Motor vehicles	2-3 years

(5) *Reassessment of lease liability*

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Group and had an effect on the decision whether it is reasonably certain that the Group will exercise an option, which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Group re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset, or recognized in profit and loss if the carrying amount of the right-of-use asset was reduced to zero.

(6) *Lease modifications*

The group treats lease modifications as a separate lease in instance where the lease modification increases the scope of the lease by adding a right to use one or more underlying assets, and the consideration for the lease increased by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the contract’s circumstances, the Group accounts for the modification as a separate lease.

Note 3 - Significant Accounting Policies (cont'd)

O. Lease payments (cont'd)

(6) Lease modifications(cont'd)

In all other cases, on the initial date of the lease modification, the Group allocates the consideration in the modified contract to the contract components, determines the revised lease term and measures the lease liability by discounting the revised lease payments using a revised discount rate.

For lease modifications that decrease the scope of the lease, the Group recognizes a decrease in the carrying amount of the right-of-use asset in order to reflect the partial or full cancellation of the lease, and recognizes in profit and loss a profit (or loss) that equals the difference between the decrease in the right-of-use asset and re-measurement of the lease liability.

For other lease modifications, the Group re-measures the lease liability against the right-of-use asset.

(7) Subleases

In leases in which the Group subleases the underlying asset, the Group examines whether the sublease is a finance lease or operating lease with respect to the right-of-use received from the head lease.

P. Financing income and expenses

Financing income is comprised of interest income on funds invested, dividend income, changes in the fair value of financial instruments measured at fair value through profit and loss and income from exchange rate differences.

Changes in the fair value of financial assets at fair value through profit and loss also include income from dividends and interest.

Financing expenses are comprised of interest expenses, linkage expenses, discount amortization expenses, changes in fair value of financial instruments measured at fair value through profit and loss, losses from exchange rate differences and unwinding of the discount on provisions.

Gains and losses from exchange rate differences and changes in the fair value of financial instruments measured at fair value through profit and loss, are presented on a net basis, as financing income or financing expenses.

Interest income and expenses are recognized in the profit and loss using the effective interest method.

In the statements of cash flows, payments for derivative contracts which are used for economic hedges of financial liabilities arising from financing activities, are presented as part of cash flows from financing activities. Payments for derivative instruments which are used for economic hedges of handset and network related acquisitions and international roaming services activity, and changes in the fair value of those derivatives, are presented as part of cash flows from operating activities. Interest received and dividends received are presented in cash flows from investment activity. Interest paid and dividends paid are presented in cash flows from financing activity.

Note 3 - Significant Accounting Policies (cont'd)

Q. Taxes on income

Taxes on income comprise current and deferred tax. Current tax and deferred tax are recognized in profit and loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in its subsidiaries and the Group’s holdings in included entities, where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their current tax assets and liabilities will be realized simultaneously.

R. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include share options and RSUs granted to employees and share options.

Note 3 - Significant Accounting Policies (cont'd)

S. New standards and amendments not yet adopted

1. Amendment to IAS 1, *Financial Reporting Standards*

The amendment to IAS 1 clarifies the classification of Liabilities as Current or Non-current and requires the following:

(a) Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights, since loans are rarely unconditional. The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right. So, management's expectations do not affect classification.
(b) The right to defer only exists if the entity complies with any relevant conditions at the reporting date.
(c) 'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

These amendment should be applied for annual periods beginning on or after 1 January 2023. Earlier application is not expected to have a material effect on the consolidated financial statements of the group.

2. Amendments to IFRS 9, *Financial Instruments*

This amendment clarifies which fees should be included in the 10% test for derecognition of financial liabilities. Costs and fees paid to third parties (and not to the lender) will not be included in the 10% test.

The amendment should be applied for annual periods beginning on or after 1 January 2022. Earlier application is possible. The amendment will be applied for changes or amendments made to financial liabilities at the beginning of the annual period in which the amendment is applied, for the first time, or after.

3. Amendments to IAS 12, *Deferred Tax*

The amendment introduce a further exception from the initial recognition exemption. Under the amendment, the entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Note 3 - Significant Accounting Policies (cont'd)

S. New standards and amendments not yet adopted (cont'd)

3. Amendments to IAS 12, *Deferred Tax* (cont'd)

Following the amendment to IAS 12, the entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

(a) to recognise a deferred tax asset – to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised – and a deferred tax liability for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities; and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset; and

(b) to recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. Earlier application is not expected to have a material effect on the consolidated financial statements of the group.

4. Amendments to IFRS 3 Business Combinations

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Earlier application is not expected to have a material effect on the consolidated financial statements of the group.

Note 4 - Fair Value

A. Determination of Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, of certain assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the appropriate interest rate at the reporting date.

Current investments and derivatives
The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

The fair value of investments in debt securities and investments in equity instruments are based on quoted market prices.

Investment property
The fair value of investment property is estimated using the comparison technique, with the valuation model being based on the price per square meter of comparable properties, as arising from observable transactions in an active market.

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions
Fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior) and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

B. Fair Value Hierarchy

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 5 - Financial Risk Management

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board has established a sub-committee for financial exposures management, which is responsible for supervising and monitoring the Group's financial exposures management policies. The sub-committee recommends to the Board of Directors changes in the Group's financial exposures management policy.

The Group's risk management policies are established to identify and analyze and manage the financial risks faced by the Group, and to monitor risks and adherence on policy. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Financial Disclosures Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures, and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group. See also Note 23, regarding Financial Instruments.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's credit risk arises principally from the Group's receivables from customers. The carrying amounts of financial assets and contract assets represent the Group's maximum credit risk exposure.

Trade receivables, other receivables and contract assets

The Group conducts credit risk evaluations on receivables and adjusts the amount of credit allowed and requires financial guarantees against her, according to the risk level of each customer. Management monitors outstanding receivable balances and credits appropriate allowances for irrecoverable amounts included in the financial statements which adequately reflect the loss embodied in irrecoverable debts. The Group is exposed to credit risk arising mainly from its operation in Israel.

Cash and cash equivalents

Most of the Group's cash and cash equivalents are maintained with major banking institutions in Israel.

Derivatives

The counterparties of the derivatives held by the Group are major banks in Israel.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the consolidated statement of financial position. Financial instruments that could potentially subject the Group to credit risks consist primarily of trade receivables. Credit risk with respect to these receivables is limited due to the composition of the subscriber base, which includes a large number of individuals and businesses.

The Company examines the customer's credit risk before sale using various parameters regarding the customer's financial condition, credit scoring, purchase amount and the customer's segment. Customer ratings are determined while using quantitative and qualitative data that can predict the risk of default.

Note 5 - Financial Risk Management (cont'd)

Credit risk (cont'd)

Assessment of expected credit losses for corporate customers
The Group records credit losses on existing balances based on past statistics that project the loss from credit risk and anticipated collection and exercises discretion based on past experience.
The Group uses data matrixes based among others on aging of customer debts in order to measure the projected credit losses that is comprised of a large number of small debt accounts.
Calculating the default rate is based on weighing the likelihood of a debtor for default in the range from full collection to write off.

Liquidity risk
The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The cash surpluses held by Group that are not required for financing their current activity, were invested in interest-bearing investment channels such as short-term deposits. These investment channels are chosen based on future forecasts of the cash Group will require in order to meet its liabilities.

The Group examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs. These forecasts take into consideration matters such as the Group’s plan to use debt for financing its activity, compliance with required financial covenants, and compliance with external requirements such as laws or regulation.

The Group has contractual commitments to purchase inventories and fixed assets, to incur capital expenditure with regard to its investment in a jointly controlled entity and an obligation to pay lease payments. For further information about material commitments see Note 32, regarding Commitments.

Market risk
In the ordinary course of business, the Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out according to the policy established by the Board of Directors.

Interest rate and CPI risks
The Group is exposed to fluctuations in the interest rate, including changes in the CPI, as part of its borrowings are linked to the CPI. As part of its risk management policy the Group from time to time enters into forward contracts that partially hedge the exposure to changes in the CPI. All such transactions are carried out within the policy established by the Board of Directors.

Currency risk
The Group's operating income and cash flows are exposed to currency risk (mostly USD), mainly due to handset and network related acquisitions, purchase of TV content, purchase of telecommunications capacity and its international roaming services activity. The Group also manages bank accounts that are denominated in a currency other than its respective functional currency, primarily USD. As part of its financial exposures hedging policy, the Group uses forward and option contracts to partially hedge the exposure to fluctuations in foreign exchange rates.

Note 5 - Financial Risk Management (cont'd)

Capital management

The Group's capital management aim is to ensure a sound and efficient capital structure which takes into consideration, among others, the following factors:

A gearing ratio that supports the Group's cash flow needs with respect to its potential cash flow generation and also supporting its dividend policy, considering the limitation imposed on dividend distribution as established in the indenture of the Group's Series H - L debentures and in the Company's loan agreements, while maintaining a Net Debt to Adjusted EBITDA ratio as established in such documents, and that meets the industry standards. The Group considers Net Debt to Adjusted EBITDA ratio to be an important measure for investors, debentures holders, analysts, and rating agencies. This ratio is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The Group's debt mainly consists of short and long-term debentures traded publicly in the Tel Aviv Stock Exchangeד.

Note 6 - Operating Segments

The Group operates in two reportable segments, as described below, which are the Group's strategic business units. The strategic business unit's allocation of resources and evaluation of performance are managed separately. The operating segments were determined based on internal management reports reviewed by the Group's chief operating decision maker (CODM).

- Cellular segment - the segment includes the cellular communications services, cellular equipment and supplemental services.
- Fixed-line segment - the segment includes landline telephony services, internet services, television services, transmission services, landline equipment and supplemental services.

	Year ended December 31, 2021				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to loss for year
Externals revenues	2,769	1,331	-	4,100	
Inter-segment revenues	13	141	(154)	-	
*** Adjusted segment EBITDA**	684	449			1,133
Depreciation and amortization					(896)
Share based payments					(15)
Other expenses					(12)
Financing income					3
Financing expenses					(168)
Share in losses of accounted investees					(5)
Tax on income					(13)
Profit for year					27

Note 6 - Operating Segments (cont'd)

	Year ended December 31, 2020				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to loss for year
Externals revenues	2,349	1,327	-	3,676	
Inter-segment revenues	15	153	(168)	-	
*** Adjusted segment EBITDA**	525	393			918
Depreciation and amortization					(924)
Share-based payments					(20)
Other income					3
Financing income					10
Financing expenses					(182)
Share in losses of accounted investees					(14)
Tax benefits					39
Loss for year					(170)

	Year ended December 31, 2019				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to loss for year
Externals revenues	2,326	1,382	-	3,708	
Inter-segment revenues	14	147	(161)	-	
*** Adjusted segment EBITDA**	627	313			940
Depreciation and amortization					(898)
Share-based payments					(8)
Other income					(10)
Financing income					49
Financing expenses					(193)
Share in losses of accounted investees					(10)
Tax benefits					23
Loss for year					(107)

* Adjusted segment EBITDA as reviewed by the Group's CODM, represents earnings before interest (financing expenses, net), taxes, other income (expenses) not part of the Company’s current activity, depreciation and amortization, profits (losses) of equity account investees and share based payments. Adjusted Segment EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies.

Note 7 – Subsidiaries

A. Presented hereunder is a list of the Group's significant subsidiaries:

	Principal location of the subsidiary's activity	The Group's ownership interest in the subsidiary for the year ended December 31	
Name of subsidiary		**2021**	**2020**
Cellcom Fixed Line Communication L.P.	Israel	**100%**	100%
Dynamica Cellular Ltd.	Israel	**100%**	100%
Golan Telecom Ltd.	Israel	**100%**	100%

B. Business combination - Purchase of Golan Telecom Ltd (hereinafter – "Golan")

On August 26, 2020, the transaction for Golan's acquisition (hereinafter – the "Acquisition"), which deals with the supply of cellular communication services, was completed, this in consideration for an amount of approximately NIS 613 million (approximately NIS 545 million net, with the addition of the balance of cash and deposits in Golan prior to the sale, and neutralizing transaction expenses as agreed between the parties). The consideration that was paid including purchase of shareholders' loans in the amount of NIS 250 million.

Upon the completion of the Acquisition, the Company holds 100% of Golan shares, and starting from the Acquisition date, Golan's balance sheet and result activities are included in the Group's statements. The Ministry of Communications approved the transaction under certain conditions, including turning Golan into a virtual operator (MVNO) for a temporary period and a demand that Golan would return financial benefits it had received in the past, and that it must return, in the opinion of the Ministry of Communications, in light of the acquisition, in an amount of approximately NIS 75 million (the "Return Amount. The restitution amount was paid to the Ministry of Communications per its request during 2021. The Company filed an administrative appeal on the decision of the Ministry of Communications to obligate the Company to return some of the restitution amount.

Note 8 - Equity Accounted Investees and Joint Operations

In July 2019, the Company and the Israel Infrastructure Fund, or IIF, completed the co-investment in Israel Broadband Company (2013) Ltd. ("IBC"). After completion of the transaction, the Company and IIF hold by jointly and equally owned limited partnership 70% of IBC's share capital. Therefore, the Company indirectly holds 35% of the voting rights of IBC and accounts for the investment by the equity method. After the report period, the transaction for Hot's investment in IBC was completed, whereby the Company, as of such date, indirectly holds 23.3% of the equity and the voting rights in IBC. As a result of the decrease in the holding rate, the company recorded a profit of NIS 11 million.

For additional detaNIS, see Note 31 (G), regarding commitments.

	As of December 31,	
	2021	**2020**
	NIS millions	
Investment in equity accounted investees:		
Purches of share capital	**160**	160
Share in losses of equity accountes investees	**(12)**	(18)
Other	**(14)**	(11)
	134	131

Note 9 - Cash and Cash Equivalents

Composition:

	As of December 31,	
	2021	**2020**
	NIS millions	
Current balances in banks	**162**	92
Demand deposits	**482**	627
	644	719

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 23.

Note 10 - Trade and Other Receivables

Composition

	As of December 31, 2021	As of December 31, 2020
	NIS millions	
Current		
Trade Receivables *		
Open accounts	**355**	337
Checks and credit cards receivables	**242**	231
Accured income	**95**	93
Current maturity of long-term receivables	**235**	324
	927	985
Other Receivables		
Prepaid expenses	**35**	29
Other	**9**	10
	44	39
	971	1,024
Non-current		
Trade Receivables *	**158**	176
Other	**5**	7
	163	183
	1,134	1,207

* Net of allowance for doubtful debts see note 23.

Non-current trade receivables balances are in respect of equipment sold in installments (mainly 36 monthly payments) which current amount as of December 31, 2021, is calculated at a 3.3% annual discount rate (December 31, 2020 - 3.3%).

Note 11 - Inventory

A. Composition

	As of December 31, 2021	As of December 31, 2020
	NIS millions	
Handsets	**53**	45
Accessories	**18**	10
Spare parts	**17**	18
	88	73

B. The Group is testing slow moving inventory for impairment. In the framework of the test conducted in 2021 impairment was credited in the amount of NIS 5 million (2020 - NIS 6 million). The write-down is included in Cost of revenues.

Note 12 - Property, Plant and Equipment, net

Composition:

	Communication network	Network control and testing equipment	Television equipment and infrastructure	,Vehicles ,computers furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as of January 1, 2020	4,979	64	409	194	82	5,728
Additions	167	1	123	19	2	312
Business combination	78	-	-	1	1	80
Discontinunce of consolidation	-	-	-	(2)	-	(2)
Disposals	(17)	-	(53)	(43)	(22)	(135)
Balance as of December 31, 2020	5,207	65	479	169	63	5,983
Additions	**219**	**3**	**114**	**15**	**3**	**354**
Deductions	**(4)**	**-**	**-**	**(13)**	**(1)**	**(18)**
Balance as of December 31, 2021	**5,422**	**68**	**593**	**171**	**65**	**6,319**
Accumulated depreciation						
Balance as of January 1, 2020	3,876	57	177	125	61	4,296
Depreciation for the year	237	2	114	25	8	386
Business combination	34	-	-	1	-	35
Discontinunce of consolidation	-	-	-	(1)	-	(1)
Deduction of depreciation	(17)	-	(53)	(43)	(22)	(135)
Balance as of December 31, 2020	4,130	59	238	107	47	4,581
Depreciation for the year	**219**	**2**	**121**	**24**	**7**	**373**
Deduction of depreciation	**(4)**	**-**	**-**	**(13)**	**(1)**	**(18)**
Balance as of December 31, 2021	**4,345**	**61**	**359**	**118**	**53**	**4,936**
Amortized balance as of January 1, 2020	1,103	7	232	69	21	1,432
Amortized balance as of December 31, 2020	1,077	6	241	62	16	1,402
Amortized balance as of December 31, 2021	**1,077**	**7**	**234**	**53**	**12**	**1,383**

The Group purchases, in the ordinary course of business some of its fixed assets on credit. The cost of acquisitions, which has not yet been paid at the reporting date, amounted to NIS 155 million (December 31, 2020 and 2019, NIS 167 million and NIS 153 million, respectively).

Note 13 - Intangible Assets and Others, net

	Licenses and frequencies	Information systems	Software	Customer acquisition cost	Goodwill	Customer relations and other	Total
	NIS millions						
Cost							
Balance as of January 1, 2020	552	315	37	396	809	309	2,418
Additions	38	64	2	131	-	-	235
Business combination	45	-	8	62	754	146	1,015
Discontinunce of consolidation	-	(14)	-	(3)	-	-	(17)
Deductions	-	(62)	(8)	-	-		(70)
Balance as of December 31, 2020	635	303	39	586	1,563	455	3,581
Additions	**-**	**59**	**2**	**135**	**-**	**-**	**196**
Deductions	**-**	**(19)**	**-**	**-**	**-**	**-**	**(19)**
Balance as of December 31, 2021	**635**	**343**	**41**	**721**	**1,563**	**455**	**3,758**
Accumulated depreciation							
Balance as of January 1, 2020	431	133	18	233	-	309	1,124
Depreciation for the year	16	94	6	132	-	7	255
Business combination	45	-	2	43	-	-	90
Discontinunce of consolidation	-	(6)	-	(1)	-	-	(7)
Deduction of depreciation	-	(62)	(7)	-	-	-	(69)
Balance as of December 31, 2020	492	159	19	407	-	316	1,393
Depreciation for the year	**17**	**69**	**5**	**143**	**-**	**21**	**255**
Deduction of depreciation	**-**	**(19)**	**-**	**-**	**-**	**-**	**(19)**
Balance as of December 31, 2021	**509**	**209**	**24**	**550**	**-**	**337**	**1,629**
Amortized balance as of January 1, 2020	121	182	19	163	809	-	1,294
Amortized balance as of December 31, 2020	143	144	20	179	1,563	139	2,188
Amortized balance as of December 31, 2021	**126**	**134**	**17**	**171**	**1,563**	**118**	**2,129**

The Group purchases in the ordinary course of business some of its Intangible assets on credit. The cost of acquisitions, which has not yet been paid at the reporting date, amounted to NIS 29 million (December 31, 2020 and 2019, NIS 67 million and NIS 34 million, respectively).

B. Impairment testing for cash-generating units containing goodwill

The recoverable amount of each of the Company's cash-generating units was evaluated by the company with the assistance of an independent external appraiser using the Value In Use model which was calculated using discounted cash flows method based on a projected five-year cash flows. The five-year projected cash flows were estimated in light of the long-term growth rate. The Company used a relevant discount rate, which reflected the specific risks associated with the future cash flows of its cash-generating units. The carrying amount of the goodwill allocated to the cellular-segment and fixed-line segment as of December 31, 2021 amount NIS 831 million and NIS 732 million, respectively.

Actual results may differ from those assumed in the Company's valuation method. It is reasonably possible that the Company's assumptions described above could change in future periods. If any of these were to vary materially from the Company's plans, it may record impairment of goodwill in the future.

Note 13 - Intangible Assets and Others, net (cont'd)

B. Impairment testing for cash-generating units containing goodwill (cont'd)

These assumptions are as follows:

	Cash generating unit Cellular segment	Cash generating unit Fixed-line segment
Pre-tax discount rate	**8.6%**	**8.2%**
Terminal value growth rate	**1.5%**	**1.5%**
Market share	**29.0%**	**N/R**
ARPU	**NIS 51.5**	**N/R**

1. The discount rate and the terminal value growth rate are denominated in real terms.
2. The cash generating units have cash flows for 5 years, as included in their discounted cash flow model.
3. The long-term growth rate has been determined as 1.5% which represents, among others, the natural population growth rate.
4. The pre-tax discount rate is estimated and calculated using several assumptions, among others, cash generating units' Cost of Equity, risk premium for normative debt leveraging of the Group and estimates of the normative leverage ratio for the industry.
5. ARPU (Average revenue per user) in terminal year (except revenue from hosting services and national roaming services), in NIS.

Sensitivity to changes in assumptions

The estimated recoverable amount of the cash generating units exceeds their carrying amount by approximately NIS 1,414 million and NIS 946 million in Cellular segment and Fixed-line segment respectively. Management has identified key assumptions for which there reasonably could be a possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount:

	Cash generating unit Cellular segment	Cash generating unit Fixed-line segment
Pre-tax discount rate	**11.73%**	**11.69%**
Terminal value growth rate	**(1.11)%**	**(1.76)%**
Market share	**22.24%**	**N/R**
ARPU	**NIS 48.5**	**N/R**

Based on the above valuation performed, the Company concluded that the recoverable amount of its cash generating units as of December 31, 2021, is higher than their carrying amount and thus, no impairment was recognized.

Determination of the fair value of cash generating units requires significant discretion, including considerations regarding the appropriate capital rates, final growth rates, weighted costs of capital and, the amount and timing of the expected future cash flows. the Company will continue to monitor the recoverable amount of its cash generating units to determine whether events and changes in circumstances such as deterioration in the business climate or operating results, continuous decline in the share price, changes in management’s business strategy or downward adjustments to the Company’ cash flows projections, warrant further impairment testing in future periods.

Note 14 – Leases

A. From January 1, 2019, the Group implements IFRS 16, Leases. The Group's mainly leases are assets used for cell and switches sites, buildings and motor vehicles.

B. Right-of-use Assets and Investment Property

	Cell and switches sites	Buildings	Motor vehicles	Total	Investment property	Total
	Right of use assets					
	NIS millions					
Cost						
Balance as of January 1, 2020	737	176	48	961	24	985
Additions, changes in agreements and revaluation	94	6	29	129	2	131
Business combination	-	16	1	17	-	17
Deductions for ended agreements	(65)	(6)	(10)	(81)	-	(81)
Balance as of December 31, 2020	**766**	**192**	**68**	**1,026**	**26**	**1,052**
Additions, changes in agreements and revaluation	**88**	**199**	**14**	**301**	**-**	**301**
Deductions for ended agreements	**(100)**	**(105)**	**(13)**	**(218)**	**-**	**(218)**
Balance as of December 31, 2021	**754**	**286**	**69**	**1,109**	**26**	**1,135**
Cumulated depreciation and devaluation						
Balance as of January 1, 2020	169	51	14	234	6	240
Depreciation for year	168	52	21	241	-	241
Change in fair value of real estate for investment	-	-	-	-	7	7
Business combination	-	5	1	6	-	6
Deductions for ended agreements	(59)	(6)	(10)	(75)	-	(75)
Changes in agreements and revaluation	(3)	(3)	0	(6)	-	(6)
Balance as of December 31, 2020	**275**	**99**	**26**	**400**	**13**	**413**
Depreciation for year	**137**	**51**	**23**	**211**	**-**	**211**
Change in fair value of real estate for investment	-	-	-	-	**7**	**7**
Deductions for ended agreements	**(98)**	**(11)**	**(11)**	**(120)**	-	**(120)**
Changes in agreements and revaluation	**(5)**	-	-	**(5)**	-	**(5)**
Balance as of December 31, 2021	**309**	**139**	**38**	**486**	**20**	**506**
Amortized cost balance as of January 1, 2020	568	125	34	727	18	745
Amortized cost balance as of December 31, 2020	491	93	42	626	13	639
Amortized cost balance as of December 31, 2021	**445**	**147**	**31**	**623**	**6**	**629**

Note 14 – Leases (cont'd)

C. Leases liabilities

	Cell and switches sites	Buildings	Motor vehicles	Total
	NIS millions			
Balance as of January 1, 2020	571	152	36	759
Additions for new contracts, changes in agreements and revaluation	94	8	31	133
Deductions for ended agreements	(6)	-	(1)	(7)
Financing expenses	21	3	1	25
Business combination	-	13	1	14
Payments for lease	(168)	(63)	(22)	(253)
Balance as of December 31, 2020	**512**	**113**	**46**	**671**
Additions for new contracts, changes in agreements and revaluation	98	211	13	322
Deductions for ended agreements	(1)	-92	(3)	(96)
Financing expenses	18	4	1	23
Payments for lease	(168)	(65)	(25)	(258)
Balance as of December 31, 2021	**459**	**171**	**32**	**662**
Current maturities of liabilities for leases	135	56	23	214
Liabilities for long-term leases	377	57	23	457
Balance as of December 31, 2020	**512**	**113**	**46**	**671**
Current maturities of liabilities for leases	105	56	23	184
Liabilities for long-term leases	354	115	9	478
Balance as of December 31, 2021	**459**	**171**	**32**	**662**

D. Options to extend the lease

Some leases of buildings that the Group leases contain an option to extend the lease that was not taken into account in the calculation of the lease liability in light of the management estimate regarding the prospects of exercising the option. Extending the period of the lease following exercise of the option shall lead to an increase to the leases liability by approximately NIS 61 million (based on the last Capitalization rate).

Note 15 - Trade Payables and Accrued Expenses

Composition

	As of December 31,	
	2021	2020
	NIS millions	
Trade payables	**384**	334
Accrued expenses	**353**	434
	737	768

Trade payables as of December 31, 2021 includes reverse factoring of trade payables transactions in amount of approximately NIS 36.5 million (in 2020 - NIS 30 million).

Note 16 - Provisions

Composition

	Dismantling and restoring sites	Legal claims	Other contractual liabilities	Total
	NIS millions			
Balance as of January 1, 2020	22	58	41	121
Provisions created in the year	8	12	1	21
Business combination	-	3	79	82
Provisions cancelled in the year	-	(14)	(4)	(18)
Balance as of January 1, 2021	30	59	117	206
Provisions created in the year	**1**	**50**	**2**	**53**
Provisions cancelled in the year	**(2)**	**(27)**	**(92)**	**(121)**
Balance as of December 31, 2021	**29**	**82**	**27**	**138**
Non-current	**29**	**-**	**-**	**29**
Current	**-**	**82**	**27**	**109**
	29	**82**	**27**	**138**

Dismantling and restoring sites

The Group is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation, etc., and are discounted at a risk-free rate. Forecast of estimated site departures or asset returns is revised in light of future changes in regulations or technological requirements.

Litigations

The Group is involved in a number of legal claims and other disputes with third parties. The Group's management, after taking legal advice, included provisions in the financial statements which are credited and attributed specifically to each case. The timing of cash outflows associated with legal claims cannot be reasonably determined. For detailed information regarding legal proceedings against the Group, refer to Note 32.

Other contractual obligations

Provisions for other contractual obligations and exposures include various obligations that are derived either from a constructive obligation or legislation for which there is a high uncertainty regarding the timing and amount of future expenditure required for settlement. During the year, the subsidiary Golan paid a total of NIS 75 million for the commitment to the Ministry of Communications in respect of financial benefits received in the past.

Note 17 - Other Payables, Including Derivatives

Composition

	As of December 31,	
	2021	2020
	NIS millions	
Employees and related liabilities	**114**	113
Government institutions	**33**	32
Interest payable	**55**	62
Accrued expenses	**41**	1
Deferred revenue	**43**	41
Derivative financial instruments	**4**	8
	290	257

Note 18 - Other Long-term Liabilities

Composition

	As of December 31,	
	2021	2020
	NIS millions	
Long-term liabilities	**-**	38
Deferred revenue	**1**	2
Other	**-**	1
	1	41

Note 19 - Debentures and Long-term Loans from Financial Institutions

A. This note provides information about the contractual terms of the Group's debentures and long-term loans from financial institutions, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risks, see Note 23.

	December 31,	
	2021	2020
	NIS millions	
Non-current liabilities		
Debentures	**2,373**	2,723
Long-term loans from financial institutions	**-**	50
	2,373	2,773
Current liabilities		
Current maturities of debentures	**383**	376
Current maturities of loans from financial institutions	**-**	138
	383	514

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

B. The terms and debt repayment schedule

1. Debentures

The terms and repayment schedule of the Company's debentures are as follows:

				December 31, 2021		December 31, 2020	
				NIS millions			
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Debentures (Series H) - linked to the Israeli CPI	NIS	1.98%	2018-2024	**456**	**450**	608	579
Debentures (series I) - unlinked	NIS	4.14%	2018-2025	**450**	**442**	563	550
Debentures (Series J) - linked to the Israeli CPI	NIS	2.45%	2021-2026	**88**	**90**	103	104
Debentures (series K) - unlinked	NIS	3.55%	2021-2026	**604**	**602**	711	707
Debentures (series L) - unlinked	NIS	2.50%	2023-2028	**1,225**	**1,172**	1,225	1,159
Total debentures				**2,823**	**2,756**	3,210	3,099

The Company's outstanding debentures were issued based on the then current Israeli shelf prospectus and are listed on the Tel Aviv Stock Exchange, or TASE.

2. In August 2021 Maalot updated the Company’s rating forecast from A with negative outlook to A with stable outlook thus no change was made to the annual interest rates following such update.

3. In connection with the issue of Series H-L debentures, the Company has undertaken to comply with certain financial and other covenants. Inter alia:
   a. An undertaking not to distribute more than 95% of the profits suitable for distribution under the Companies Law (the “**Profits**”); provided (1) if the Company’s net debt to EBITDA ratio exceeds a ratio of 3.5:1, the Company shall not distribute more than 85% of the Profits; (2) if the Company’s net debt to EBITDA ratio exceeds 4:1, the Company shall not distribute more than 70% of the Profits; and (3) of the Company’s net debt to EBITDA ratio exceeds 5:1 or 4.5:1 for a duration of four consecutive quarters, the Company shall not distribute dividends.
   b. An undertaking to rate the debentures through a rating company (insofar as this is under the Company’s control).
   c. An undertaking to pay additional interest at a rate of 0.25% for a two point decrease in the rating of the debentures Series H to K, and 0.5% for a two point decrease in the rating of debentures Series L, and additional interest of 0.25% for any one point decrease in the rating of the debentures, up to a maximum addition of 1%, compared to their rating before being issued.
   d. The Company’s undertaking not to issue additional debentures of any series should the Company fail to meet the financial criteria, or if such issue shall cause a decrease in the debentures’ rating.
   e. The net debt to EBITDA ratio is the ratio between the Company’s net debt and the adjusted EBITDA in a period of 12 consecutive months, neutralizing non-recurring events. In this respect, “net debt” is defined as credit and loans from banking and other corporations (without obligations for leases arising from the implementation of IFRS 16) and obligations for debentures, less cash and cash equivalents and current investments in marketable securities. “Adjusted EBITDA” – see definition in Note 6.

As of December 31, 2021, the Group is in compliance with the criteria that were determined.

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

B. **The terms and debt repayment schedule (cont'd)**

4. In addition, the Company's debentures include Events of Default, including:
   a. An undertaking not to create pledges (negative pledge), subject to certain exceptions. Failure to fulfill such undertaking shall be deemed a cause for acceleration.
   b. Acceleration of a different debt of the Company (cross default) by a lender that is not a supplier, except with respect to a debt of NIS 150 million or less. The restriction on accelerating such debt shall not apply to a cross default that was caused by a different series of the Company's debentures.
   c. A case where the Company shall cease to act in the field of cellular communications and/or ceased to hold its cellular license for a period exceeding 60 days.
   d. A suspension of trading the debentures on TASE, for a period exceeding 45 days.
   e. Making a distribution that does not comply with the Company's undertaking with respect to the restrictions on distributing Profits.
   f. Failure to rate the debenture for a period exceeding 60 days.
   g. A motion or court order for stay of proceedings against the Company or submitting a motion for a creditors arrangements.
   h. Selling a material part of the Company's assets or merger (except for certain exceptions).
   i. Failure to publish financial statements on time.
   j. A net debt to EBITDA ratio exceeding 1:5, or exceeding 1:4.5 for four consecutive quarters. Net debt to EBITDA ratio as of December 31, 2021 is 1.89.
   k. Failure to comply with the Company's undertaking not to create pledges.
   l. A material deterioration of the Company's business compared to its situation on the issue date of the debentures, and a real concern that the Company may not repay the debentures on time.
   m. There is real concern that the Company shall not fulfill its material undertakings towards its debenture holders.
   n. Including a comment in the Company's financial statements regarding the concern of the Company's continued existence as a "going concern" for a period of two consecutive quarters.
   o. A breach of the Company's undertakings with respect to the issue of additional debentures.

5. In May 2020, the Company issued to the public:
   a. NIS 222,000,000 par value of debentures Series L.
   b. 2,220,000 warrants (Series 4) (for additional detaNIS see Note 19).

   The Company's total net immediate proceeds from the issue was approximately NIS 200 million. The debentures reflect an effective interest rate of 5.94%.

6. In December 2020, the Company issued additional debentures (Series L) of approximately NIS 400 million par value, in total consideration of approximately NIS 390 million, which reflects an effective annual interest rate of 3.65%.

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

C. Long-term loans from financial institutions

The terms and repayment schedule of the Company's long-term loans are as follows:

				December 31, 2021		December 31, 2020	
				NIS millions			
	Currency	interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Loan from financial institution	NIS	4.60%	2018-2021	-	-	50	50
Loan from financial institution	NIS	5.10%	2019-2022	-	-	100	100
Loan from bank (3)	NIS	4.00%	2020-2021	-	-	38	38
Total loans				-	-	188	188

D. In February 2022 the Company engaged with an institutional entity (the “Lender”) under an agreement for providing a credit facility of up to NIS 250 million, for a period of 24 months from the date of providing the credit facility (the “Credit Facility”) that shall allow the Company to receive loans, per the Company’s selection, not linked to any index, of two kinds:

1. Short-term loans to be repaid from time to time and pursuant to the company’s choice until 24 months after the date the credit facility was provided. The loans shall bear variable interest according to the interest rate of the Bank of Israel Interest plus a margin to be determined between the parties. The interest shall be repaid quarterly
2. Long-term loans to be repaid in equal semi-annual installments from the date the loans were provided until 7 years after the date the credit line was provided. The loans shall bear variable interest at the rate of the Bank of Israel Interest or fixed interest at the government bond yield rate as it shall be on the date the loan is provided, as per the Company’s choice, a margin to be determined between the parties. The interest shall be repaid in quarterly installments.

The Company shall pay the lender on each of the interest payment dates, a fee for failing to utilize the credit facility at a rate to be determined between the parties, from the unutilized credit line amount. Provision of the loan is contingent upon the Company complying with its representations and undertakings according to the agreement, on no occurrence of an event of default and on the absence of legal impediment on the lender to extend the loan.

The agreement is not secured by security interests and includes generally accepted terms and undertakings, including a restriction on creating charges subject to certain exceptions, restrictions on a distribution of profits, financial stipulations and events of default that generally also apply with respect to the bonds (series H – L) of the Company, with certain changes, and an option for early redemption, under certain conditions.

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

E. Movement in liabilities deriving from financing activities

	Loans	Debentures	Derivatives	Interest payable	Leases liabilities	Total
	NIS millions					
Balance as of January 1, 2020	(400)	(2,920)	(5)	(55)	(759)	(4,139)
Changes from financing cash flow						
Payments for derivative contracts, net	-	-	6	-	-	6
Repayment of debentures and long-term loans from financial institutions	212	417	-	-	-	629
Proceeds from issuance of debentures, net of issuance costs	-	(583)	-	-	-	(583)
Repurchase of debentures						
Interest paid	-	-	-	130	-	130
Payments for leases	-	-	-	-	228	228
Total cash, net, deriving from financing activities	212	(166)	6	130	228	410
Other changes	-	-	(1)	(12)	(126)	(139)
Bussines combination	-	-	-	-	(14)	(14)
Financing expenses recognized in profit or loss	-	(13)	(8)	(125)	-	(146)
Balance as of December 31, 2020	(188)	(3,099)	(8)	(62)	(671)	(4,028)
Changes from financing cash flow						
Repayment of loans, debentures and derivativec contracts	**188**	**389**	**(2)**	**-**	**-**	**575**
Interest paid	**-**	**-**	**-**	**100**	**23**	**123**
Payments for leases	**-**	**-**	**-**	**-**	**235**	**235**
Total cash, net, deriving from financing activities	**188**	**389**	**(2)**	**100**	**258**	**933**
Other changes	**-**	**-**	**9**	**-**	**(226)**	**(217)**
Financing expenses recognized in profit or loss	**-**	**(46)**	**(3)**	**(93)**	**(23)**	**(165)**
Balance as of December 31, 2021	**-**	**(2,756)**	**(4)**	**(55)**	**(662)**	**(3,463)**

Note 20 - Liability for Employee Rights upon Retirement, Net

The obligation of the Group, under law and labor agreements, to pay severance pay to employees who are not covered by the pension or insurance plans as mentioned in section A below, as of December 31, 2021 and 2020 is NIS 13 million and NIS 11 million respectively, and they are presented in the consolidated statements of financial position, under Liability for employee rights upon retirement, net.

A. Post-employment benefit plans - defined contribution plan

The Group's liability for severance pay for its Israeli employees is calculated pursuant to Israeli Severance Pay Law. The Group's liability is mostly covered by monthly deposits with severance pay funds, insurance policies and by an accrual on the consolidated statements of financial position. For most of the Group's employees, the payments to pension funds and to insurance companies exempt the Group from any obligation towards its employees, in accordance with Section 14 of the Severance Pay Law-1963. Accumulated amounts in pension funds and in insurance companies are not under the Group's control or management and accordingly, neither those amounts nor the corresponding accrual for severance pay are presented in the consolidated statements of financial position.

B. Post-employment benefit plans - defined benefit plan

Severance payments which is not covered against deposits in defined contribution plans, as aforementioned, are accounted for by the Group as a defined benefit plan, according to which a liability for employee benefits is recognized and in respect of which, the Group deposits amounts in central severance pay funds and in appropriate insurance policies. The total liability as at December 31, 2021 is NIS 19 million (2020 - NIS 15 million). The fair value of the plan assets, the severance pay fund, is NIS 11 million (2020 - NIS 11 million). The expense recognized in the consolidated statement of income for the year ended December 31, 2021 in respect of defined benefit plans, is NIS 1 million (2020 - NIS 1 million).

C. As of December 31, 2021, the Group's liability for adaptation grants to employees is NIS 5 million (2020 - NIS 6 million).

Note 21 - Capital and Reserves

A. Share capital

	2021	2020	2019
		NIS millions	
Issued and paid at January 1	**1,627,758**	1,472,885	1,161,968
Equity offering	**-**	-	306,000
Exercise of share options	**5,455**	154,873	4,917
Issued and paid at December 31	**1,633,213**	1,627,758	1,472,885

The share capital is comprised of ordinary shares of NIS 0.01 par value each.

1. In June 2019, 3,030,300 series 2 options of the Company which were issued on June 2018, expired.
2. In December 2019, The Company issued for immediate total net consideration of approximately NIS 309 million:
   A. 30,600,000 ordinary shares of the Company (par value NIS 0.01 per share, or ordinary shares).
   B. 7,038,300 Series 3 Options. Each Option entitled the holder thereof to purchase one ordinary share at an exercise price of NIS 8.64, until April 1, 2020. In March 2020 the court granted the Company's request and extended the exercise period for Series 3 Options until June 30, 2020.
   C. 6,426,000 Series 4 Options. Each Option entitled the holder thereof to purchase one ordinary share at an exercise price of NIS 9.60, until September 30, 2020.
3. In May 2020, the Company issued to the public:
   A. NIS 222,000,000 par value debentures Series L (for detaNIS see Note 20).
   B. 2,220,000 Series 4 Options. Each Option entitled its holder to purchase one ordinary share at an exercise price of NIS 9.6, as of September 30, 2020.
4. Until June 30, 2020, 7,024,194 Series 3 Options were exercised, while the balance expired. Until September 30, 2020, 8,644,981 Series 4 Options were exercised, while the balance expired. The total proceeds received from exercising the Options in the reporting period was NIS 140 million.
5. On December 31, 2021, 2020 and 2019, the authorized share capital was comprised of 300 million ordinary shares.

B. Basic and diluted earnings (loss) per share

The calculation of basic earnings (loss) per share was based on the profit (loss) attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding (118,376,455, 153,751,724 and 162,775,715 during the years 2019, 2020 and 2021, respectively). In 2019 – 2020, the basic loss per share was adjusted to the diluted loss since the effect of the exercise addition of the Options is anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

C. Dividends

In 2019-2021 the Company did not distribute dividends to the shareholders of the Company.

Note 22 - Share-Based Payments

In March 2015, the Company's board of directors approved shared based incentive plan - "2015 Share Incentive Plan" for employees, directors, consultants and sub-contractors of the Company and the Company's affiliates. Under the plan, the Company's board of directors is authorized to determine the terms of the grants, including the identity of grantees, the number of options or restricted stock units (“RSUs”) to be granted, the vesting schedule and the exercise price. The terms of the share based payments include a dividend adjustment mechanism. The options will be exercised at net exercise mechanism, with no cash transfer.

In January 2022, after the balance sheet date, the Company’s board of directors decided to grant options to the Company’s CEO, Daniel Sapir, and the resolution of the board of directors was approved by the meeting of shareholders in February 2022. The granted options shall vest in five batches at the end of one, two, three, four and five years from the grant date. The options are exercisable within 36 months from their annual vesting date. Each batch includes 224,734 options. The fair value of the granted options was calculated according to an estimated average value of NIS 5.9 per option. The assumptions on the basis of which the fair value was calculated: an average of risk-free interest rate of 0.4%, weighted average of the expected lifespan of 4 years, and anticipated volatility of 46.3%.

In March 2022, after the balance sheet date, the Company’s board of directors decided to grant options to the Company’s employees of approximately 3.1 million options of the Company's ordinary shares with a total fair value of NIS 14 million which shall vest in four equal batches, over a period of 4 years. In addition, granted approximately 851 thousand Restricted stock units (RSU) of the Company with a total fair value of NIS 14 million which shall vest in four equal batches, over a period of 4 years

Each option is exercisable into a share of NIS 0.01 par value (according to the market price on the exercise date) The detaNIS of the grants:

Grant date/ Employees entitled	Number of instruments In thousands	Instruments conditions	Vesting conditions	Contractual life of options	Adjusted exercise price per share as of December 31, 2021
Share options granted in November 2016 to senior employees	63	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4.5 years	NIS 29.97
Share options granted in May 2019 to employees	2,944	Exercisable into one share of NIS 0.01 par value, at the market price.	Four equal portions over four years of employment	5 years	NIS 15.66
Restricted stock units (RSU) granted in May 2019 to senior employees	686	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Four equal portions over four years of employment	5 years	-
Restricted stock units (RSU) granted in May 2019 to non-profit organization employees	333	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Two equal portions over two years	2 years	-
Share options granted in January 2020 to the CEO	4,153	Exercisable into one share of NIS 0.01 par value, at the market price.	Five equal portions over five years of employment	8 years	NIS 14.2-17.25
Share options granted to employees in July 2020	2,407	Exercisable into one share of NIS 0.01 par value, at the market price.	Four equal portions over four years of employment	5 years	NIS 12.35

Note 22 - Share-Based Payments (cont'd)

Grant date/ Employees entitled	Number of instruments In thousands	Instruments conditions	Vesting conditions	Contractual life of options	Adjusted exercise price per share as of December 31, 2021
Restricted stock units (RSU) granted in July 2020 to employees	629	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Four equal portions over four years of employment	5 years	-
Share options granted in August-December 2020, to senior employees	4,930	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 13.00-18.7
Share options granted in January 2021, August 2021, to senior employees	1,105	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 14.8-19.7
Share options granted to employees in August and October 2021	1,195	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 11.4-14.8

The changes in the balances of the options were as follows:

	Number of Options (thousands)	Weighted average of exercise price (NIS)	Number of Options (thousands)	Weighted average of exercise price (NIS)	Number of Options (thousands)	Weighted average of exercise price (NIS)
	2021		**2020**		**2019**	
Balance as at January 1	**13,389**	**17.8**	3,564	17.8	780	25.9
Granted during the year	**2,300**	**14.5**	11,490	14.5	2,944	15.66
Forfeited during the year	**(972)**	**19.9**	(1,639)	19.9	(160)	16.96
Exercised during the year	**(859)**	**15.7**	(26)	15.7	-	-
Total options outstanding as at December 31	**13,858**	**14.9**	13,389	14.7	3,564	17.8
Total of exercisable options as at December 31	**2,923**	**25.8**	579	15.8	759	25.8

The weighted average of the remaining contractual life of options outstanding as at December 31, 2021 is 3.8 years.

Note 22 - Share-Based Payments (cont'd)

Fair value of share options and assumptions:

The fair value of employee stock options was measured using the Black and Scholes model. The model assumptions include the share price at the measurement date, expected volatility based on historical volatility in the company's shares, life of instruments based on past experience and risk-free interest rate.

	2021	**2020**	**2019**
Fair value at grant date in NIS	**2.7-3.7**	2.2-4.3	3.26
Fair value assumptions:			
Share price at grant date NIS	**10.8-13.9**	11.1-15.8	15.05
Exercise price NIS	**11.4-19.7**	12.3-18.7	15.66
Expected volatility (weighted average)	**49.5-51.0%**	38.2-52.4%	34.7%
Option life (expected weighted average life)	**2.3**	3.8	2.75
Risk free interest rate	**0.05-0.25%**	0.05-0.5%	0.7%

The changes in the balances of the RSU were as follows:

	Number of RSU (thousands)		
	2021	**2020**	**2019**
Balance as at January 1	**1,104**	987	-
Granted during the year	**-**	629	1,019
Forfeited during the year	**(102)**	(203)	(32)
Exercised during the year	**(415)**	(309)	-
Total RSU outstanding as at December 31	**587**	1,104	987
Total of exercisable RSU as at December 31	**634**	285	-

	2021	**2020**	**2019**
Fair value of restricted stock units:			
Fair value of restricted stock units at grant date	-	11.1	15.05

	2021	**2020**	**2019**
Salary expenses arising from share-based payments (NIS millions)	**15**	20	8

Note 23 - Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As of December 31,	
	2021	**2020**
	NIS millions	
Trade receivables including long-term amounts	**1,085**	1,161
Loans and other receivables, including long-term amounts	**25**	14
Investment in debt securities and deposits	**23**	429
Cash and cash equivalents in banks	**644**	719
Derivative financial instruments	-	1
	1,777	2,324

The maximum exposure to credit risk of financial assets at the reporting date by type of counterparty is:

	As of December 31,	
	2021	**2020**
	NIS millions	
Receivables from subscribers	**930**	1,027
Receivables from distributors and other operators	**155**	134
Deposits	**23**	429
Cash and cash equivalents in banks	**644**	719
Other	**25**	15
	1,777	2,324

Impairment losses

The aging of financial assets at the reporting date was as follows:

	Gross	Devaluation	Gross	Devaluation
	2021		2020	
	NIS millions			
Not past due	**1,871**	**109**	2,272	32
Past due less than one year	**12**	**2**	85	30
Past due more than on year	**5**	**1**	143	115
	1,888	**112**	2,500	177

Note 23 - Financial Instruments (cont'd)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2021	2020
	NIS millions	
Balance as of January 1	**177**	186
Write-off of lost debts	**(69)**	(35)
Business combination	**-**	6
Classified to trade and other receivables	**-**	(7)
Doubtful debt expenses	**4**	27
Balance as of December 31	**112**	177

The allowance accounts in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the amount considered irrecoverable is written off against the trade receivable directly.

Liquidity risk

The following are the maturities of contractual financial liabilities and other non-contractual liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As of December 31, 2021						
	Carrying amount	Contractual cash flow	First year	Second year	Third year	Four to five years	More than five years
	NIS millions						
Debentures*	**(2,811)**	**(3,121)**	**(473)**	**(645)**	**(628)**	**(867)**	**(508)**
Trade and other payables	**(932)**	**(932)**	**(932)**	**-**	**-**	**-**	**-**
Forward exchange contracts on foreign currencies	**(4)**	**(4)**	**(4)**	**-**	**-**	**-**	**-**
Other long-term liabilities	**(1)**	**(1)**	**-**	**(1)**	**-**	**-**	**-**
Lease liabilities	**(662)**	**(728)**	**(196)**	**(141)**	**(101)**	**(144)**	**(146)**
	(4,410)	**(4,786)**	**(1,605)**	**(787)**	**(729)**	**(1,011)**	**(654)**

	As of December 31, 2020						
	Carrying amount	Contractual cash flow	First year	Second year	Third year	Four to five years	More than five years
	NIS millions						
Debentures*	(3,161)	(3,588)	(481)	(469)	(641)	(1,120)	(877)
Long-term loans from financial institutions*	(188)	(194)	(143)	(51)	-	-	-
Trade and other payables	(913)	(913)	(913)	-	-	-	-
Forward exchange contracts on foreign currencies	-	-	-	-	-	-	-
Forward exchange contracts on CPI	(8)	(8)	(8)	-	-	-	-
Other long-term liabilities	(44)	(44)	(6)	(38)	-	-	-
Lease liabilities	(671)	(713)	(221)	(164)	(96)	(125)	(106)
	(4,985)	(5,460)	(1,772)	(722)	(737)	(1,245)	(983)

* Including accrued interest

Note 23 - Financial Instruments (cont'd)

Currency risk and CPI

The Group's exposure to foreign currency risk and CPI is as follows:
The Group's exposure to linkage and foreign currency risk in respect of derivatives is as follows:

	December 31, 2021			December 31, 2020		
	In or linked to foreign currency (mainly USD)	Linked to CPI	Unlinked	In or linked to foreign currency (mainly USD)	Linked to CPI	Unlinked
	NIS millions			NIS millions		
Current assets						
Cash and cash equivalents	**31**	**-**	**613**	17	-	702
Current investments, including derivatives	**-**	**-**	**23**	-	-	429
Trade receivables	**45**	**-**	**882**	22	-	963
Other receivables	**-**	**12**	**11**	-	2	9
Long-term assets						
Long-term receivables	**-**	**2**	**158**	-	1	179
Current liabilities						
Current maturities of debentures and loans from financial institutions	**-**	**(166)**	**(217)**	-	(160)	(354)
Trade payables and accrued expenses	**(193)**	**-**	**(544)**	(197)	-	(570)
Other current liabilities, including derivatives	**(4)**	**(42)**	**(317)**	(8)	(40)	(344)
Current maturities of lease liabilities	**(2)**	**(178)**	**(4)**	(4)	(206)	(5)
Long-term liabilities						
Long-term loans from financial institutions	**-**	**-**	**-**	-	-	(50)
Debentures	**-**	**(375)**	**(1,998)**	-	(523)	(2,200)
Other non-current liabilities	**-**	**-**	**(42)**	(38)	-	(42)
Long-term lease liabilities	**(5)**	**(462)**	**(11)**	(8)	(439)	(10)
	(128)	**(1,209)**	**(1,446)**	(216)	(1,365)	(1,293)

Note 23 - Financial Instruments (cont'd)

Currency risk and CPI (cont'd)

	December 31, 2021			
	Currency/linkage receivable	Currency/linkage payable	Face value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward contracts on exchange rates	USD	NIS	**(3)**	**(4)**
Forward contracts on CPI	CPI	NIS	**(240)**	**-**
Foreign currency put options	NIS	USD	**(70)**	**-**

	December 31, 2020			
	Currency/linkage receivable	Currency/linkage payable	Face value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward contracts on exchange rates	USD	NIS	92	(5)
Forward contracts on CPI	CPI	NIS	70	-
Instruments used for hedging				
Forward contracts on exchange rates	USD	NIS	59	(3)

Sensitivity analysis

A change of the CPI as at December 31, 2021 and 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2020.

	Change	Equity	Net profit
		NIS millions	
December 31, 2021			
Increase in the CPI of	2.0%	**(22)**	**(22)**
Increase in the CPI of	1.0%	**(11)**	**(11)**
Decrease in the CPI of	(1.0)%	**11**	**11**
Decrease in the CPI of	(2.0)%	**22**	**22**
December 31, 2020			
Increase in the CPI of	2.0%	(20)	(20)
Increase in the CPI of	1.0%	(10)	(10)
Decrease in the CPI of	(1.0)%	10	10
Decrease in the CPI of	(2.0)%	20	20

Sensitivity of change in foreign exchange rate is immaterial as at December 31, 2021 and 2020.

Note 23 - Financial Instruments (cont'd)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, not including derivatives, was:

	Carrying amount	
	2021	**2020**
	NIS millions	
Fixed rate instruments		
Financial liabilities	**(2,756)**	(3,287)
	(2,756)	(3,287)
Variable rate instruments		
Financial assets	**505**	1,056

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the end of the reporting period would have increased (decreased) equity and profit or loss by immaterial amounts.

Fair Value

(1) Financial instruments measured at fair value for disclosure purposes only

The book value of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, current investments, including derivatives, trade and other payables, including derivatives and other long-term liabilities, are equal or approximate to their fair value.

The fair values of the remaining financial liabilities and their book values as presented in the consolidated statements of financial position are as follows:

	December 31, 2021		December 31, 2020	
	Carrying amount	Fair value*	Carrying amount	Fair value*
	NIS millions		NIS millions	
Debentures, including current maturities and interest payable	**(2,811)**	**(2,935)**	(3,160)	(3,329)
Long-term loans from financial institutions, including current maturities and interest payable	-	-	(188)	(192)

* The fair value as of December 31, 2021 includes principal and interest in a total sum of approximately NIS 55 million, paid in January 2022, after the end of the reporting period.
The fair value as of December 31, 2020 includes principal and interest in a total sum of approximately NIS 62 million, paid in January 2021.

The fair value of marketable debentures is determined by reference to the quoted closing asking price at the reporting date (level 1), with the addition of principal and interest amounts, which were paid during the following month after the end of the reporting period.

Note 23 - Financial Instruments (cont'd)

Fair Value (cont'd)

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analysis financial instruments carried at fair value, by valuation method, to the different levels.

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
	NIS millions			
Financial assets by fair value through profit or loss				
Current investments in debt securities	**23**	**-**	**-**	**23**
Derivatives	**-**	**-**	**-**	**-**
Total assets	**23**	**-**	**-**	**23**
Financial liabilities by fair value through profit or loss				
Derivatives	**-**	**(4)**	**-**	**(4)**
Total liabilities	**-**	**(4)**	**-**	**(4)**

There have been no transfers during the year between Levels 1 and 2.

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	NIS millions			
Financial assets by fair value through profit or loss				
Derivatives	-	1	-	1
Total assets	-	1	-	1
Financial liabilities by fair value through profit or loss				
Derivatives	-	(8)	-	(8)
Total liabilities	-	(8)	-	(8)

There have been no transfers during the year between Levels 1 and 2.

(3) DetaNIS regarding fair value measurement at Level 2

Financial instrument	Valuation method for determining fair value
Forward contracts	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Foreign currency options	Fair value is measured based on the Black-Scholes formula.

Note 23 - Financial Instruments (cont'd)

Fair Value (cont'd)

(4) Offset of financial assets and financial liabilities

The following table sets out the carrying amounts of recognized financial instruments that were offset in the consolidated statements of financial position:

		December 31, 2021		
	Note	Gross amount of financial assets (liabilities) recognized	Gross amount of financial assets (liabilities) recognized and offset in the consolidated statements of financial position	Net amount of financial assets (liabilities) presented in the consolidated statements of financial position
			NIS millions	
Financial assets				
Trade receivables	10	**241**	**(123)**	**118**
Financial liabilities				
Trade payables and accrued expenses	15	**(158)**	**123**	**(35)**

		December 31, 2020		
	Note	Gross amount of financial assets (liabilities) recognized	Gross amount of financial assets (liabilities) recognized and offset in the consolidated statements of financial position	Net amount of financial assets (liabilities) presented in the consolidated statements of financial position
			NIS millions	
Financial assets				
Trade receivables	10	209	(193)	16
Financial liabilities				
Trade payables and accrued expenses	15	(216)	193	(23)

Note 24 - Revenues

By type of revenue:

Composition

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
Revenues from sale of end equipment	**1,161**	878	932
Revenues from services			
Cellular services	**1,762**	1,543	1,541
Land-line communications services	**1,086**	1,153	1,111
Other services	**91**	102	124
Total revenues from services	**2,939**	2,798	2,776
Total revenues	**4,100**	3,676	3,708

Note 25 - Cost of Revenues

Composition

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
According to source of income			
Cost of equipment sold	**977**	757	695
Cost of revenues from services	**1,986**	2,043	2,030
	2,963	2,800	2,725
According to its components			
Cost of equipment sold	**977**	757	695
Rent and related expenses	**85**	66	64
Salaries and other related expenses	**162**	196	213
Fees to communication operators	**792**	795	763
Cost of content	**228**	261	267
Depreciation and amortization	**565**	597	601
Royalties and fees	**90**	86	85
Other	**64**	42	37
Total cost of revenues from services	**1,986**	2,043	2,030
	2,963	2,800	2,725

Note 26 - Selling and Marketing Expenses

Composition

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
Salaries and related expenses	**288**	251	278
Commissions	**75**	78	83
Advertising and public relations	**57**	39	46
Depreciation and amortization	**197**	167	155
Royalties and fees	**22**	19	18
Other	**27**	26	30
	666	580	610

Note 27 - General and Administrative Expenses

Composition

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
Salaries and related expenses	**85**	82	73
Depreciation and amortization	**134**	160	142
Rent and maintenance	**23**	19	14
Data processing and professional services	**25**	28	33
Welfare expenses, car allowance and transportation workers	**25**	31	27
Other	**9**	10	11
	301	330	300

Note 28 - Other Income (Expenses), net

Composition

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
Interest income from installment sale transactions	**12**	18	24
Expenses for voluntary retirement plan	**-**	-	(45)
Profit of operating Contractor	**39**	23	2
Other	**(7)**	(3)	(1)
Other revenues (expenses), net	**44**	38	(20)

Note 29 - Financing Income and Expenses

Composition

	2021	2020	2019
	NIS millions		
Net change in the fair value of financial assets measured by fair value through profit or loss	**-**	-	36
Interest revenues from loans	**-**	4	11
Other	**3**	6	2
Financing revenues	**3**	10	49
Net change in the fair value of financial assets measured by fair value through profit or loss	**-**	(19)	-
Interest expenses and index linkage differentials for long-term liabilities	**(109)**	(96)	(123)
Net change in the fair value of derivatives	**-**	(8)	(12)
Expenses from discount amortization	**(31)**	(29)	(27)
Financing expenses for liabilities for leases	**(22)**	(25)	(24)
Other	**(6)**	(5)	(7)
Financing expenses	**(168)**	(182)	(193)
Financing expenses, net	**(165)**	(172)	(144)

Note 30 - Income Tax

A. DetaNIS regarding the tax environment of the Group

Corporate tax rate

The tax rate relevant to the Group in the years 2019-2021 is 23%.

The deferred tax balances as at December 31, 2020 and at December 31, 2021 were calculated according to the tax rate of 23% - the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

B. Composition of tax on income (tax benefit)

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
Current tax expenses (income)			
Current year	**6**	4	19
Adjustments for past years, net	**(1)**	1	(3)
	5	5	16
Deferred tax income			
Creation and reversal of temporary differences	**7**	(44)	(39)
	7	(44)	(39)
Tax on income (tax benefit)	**12**	(39)	(23)

Note 30 - Income Tax (cont'd)

C. Income tax in respect of other comprehensive loss

	,For year ended December 31		
	2021	2020	2019
	NIS millions		
Before tax	**(3)**	-	(5)
Tax expenses	**1**	-	1
Net of tax	**(2)**	-	(4)

D. Reconciliation between the theoretical tax on the pre-tax profit (loss) and the tax expense (income)

	For year ended December 31,		
	2021	2020	2019
	NIS millions		
Profit (loss) before taxes on income	**44**	(195)	(130)
Primary tax rate of the group	**23.0%**	23.0%	23.0%
Tax calculated according to the Group's primary tax rate	**10**	(45)	(30)
Addition tax in respect of:			
Non-deductible expenses	**6**	8	8
Taxes in respect of previous years	**-**	(1)	(3)
Other differences	**(4)**	(1)	2
Tax on income (tax benefit)	**12**	(39)	(23)

Note 30 - Income Tax (cont'd)

E. Recognized deferred tax assets and liabilities

Deferred taxes are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above.

The movement in deferred tax assets and liabilities is attributable to the following items:

	Provision to doubtful debts	Fixed assets and intangible assets	Deduction and losses for carrying for tax purposes	Other	Total
			NIS millions		
Deferred tax asset (liability) balance as of January 1, 2021	**40**	**(188)**	**73**	**39**	**(36)**
Changes recognized in profit or loss	**(15)**	**8**	**3**	**(1)**	**(5)**
Business combination	**-**	**-**	**-**	**1**	**1**
Balance of deferred tax asset (liability) as at December 31, 2021	**25**	**(180)**	**76**	**39**	**(40)**
Deferred tax asset	**25**	**6**	**76**	**42**	**149**
Offset of balances					**(144)**
Deferred tax asset in the consolidated statements of financial position as at December 31, 2021					**5**
Deferred tax liability	**-**	**(186)**	**-**	**(3)**	**(189)**
Offset of balances					**144**
Deferred tax liability in the consolidated statements of financial position as at December 31, 2021					**(45)**

Note 30 - Income Tax (cont'd)

E. Recognized deferred tax assets and liabilities (cont'd)

	Provision to doubtful debts	Fixed assets and intangible assets	Deduction and losses for carrying for tax purposes	Other	Total
			NIS millions		
Balance of deferred tax asset (liability) as at January 1, 2020	41	(185)	51	33	(60)
Changes recognized in profit or loss	(1)	18	19	8	44
Changes recognized in other comprehensive income	-	(21)	3	(2)	(20)
Balance of deferred tax asset (liability) as at December 31, 2020	40	(188)	73	39	(36)
Deferred tax asset	40	5	73	41	159
Offset of balances					(159)
Deferred tax asset in the consolidated statements of financial position as at December 31, 2020					-
Deferred tax liability	-	(193)	-	(2)	(195)
Offset of balances					159
Deferred tax liability in the consolidated statements of financial position as at December 31, 2020					(36)

F. Tax assessments

1. In March 2020, the Company with Israeli Tax Authority reached a final agreement in relation to the years 2014 - 2017 tax assessment of the Company. The assessment did not have a material effect on the tax expenses in 2020.

2. Golan Telecom Ltd. has received final tax assessments up to and including the year ended December 31, 2019 (2019 fiscal year).

3. Dynamica network stores Ltd. has received final tax assessments up to and including the year ended December 31, 2019 (2019 fiscal year).

Note 31 - Commitments

A. The Group has commitments regarding the license it was granted in 1994, including:

1. Not to pledge any of the assets used to execute the license without the advance consent of the Ministry of Communications.

2. The Company's shareholders' joint equity, combined with the Company's equity, shall not amount to less than US$ 200 million. Regarding this stipulation, a shareholder holding less than 10% of the rights to the Company's equity is not taken into account.

As of the date of singing the financial statements the Group is in compliance with the above conditions.

B. As at December 31, 2021, the Group has commitments to purchase equipment for the communications networks, end user equipment, systems and software maintenance, and content and related services, in a total amount of approximately NIS 573 million.

C. The Group has 2 agreements for purchase of rights of use (IRU):

1. Rights of use in communication lines to the global internet: The Group engaged in several agreements for the purchase of indefeasible rights of use (IRU) in certain communication capacities in communication lines connecting the Israeli internet to the global internet, as well as maintenance and operation services in connection with the foregoing communication lines. The agreement period in connection with most of the capacity is until May 2032. The balance of the liability from all of the existing agreements as of December 31, 2021, is NIS 24 million.

2. Rights of use in IBC’s optic fiber infrastructure, for addition detaNIS see Section G of this note.

D. Network sharing agreement with Marathon (Xfone):

Sharing agreement for the 4G and 5G Networks and hosting services for 2G and 3G Networks with Xfone, came into effect in April 2017, and updated in March 8, 2022 (the “**Completion Date**”).
In November 2020 Xfone stopped making payments to the Group according to the sharing agreement and in January 2021 it provided notice to the Company on termination of the agreement alleging material breach by the Company. In February 2021 the Company filed a claim for enforcement of the sharing agreement.
In June 2021 a stay of proceedings was granted per Xfone’s request, for purpose of formulating a creditors arrangement with the consent of the secured creditor (Bank Mizrahi) under the Insolvency and Economic Rehabilitation Law, 5778-2018 and the Insolvency and Economic Rehabilitation Law (Amendment no. 4 – temporary order – Covid-19), 5781-2021, including the legal proceedings initiated by the Company against Xfone and removal of the temporary liens imposed by the Company, and an arrangement manager was appointed.
On September 24, 2021, the Company executed an agreement for changing the conditions of the sharing and use agreement with Xfone (the Sharing and Use Agreement as updated – the Updated Sharing Agreement). On October 12, 2021, the Corporation submitted an offer to purchase two thirds of Xfone’s share capital (the balance shall remain with the controlling shareholder of Xfone) and together with Xfone and its controlling shareholder, filed a proposal for debt restructuring with Xfone’s creditors. On October 17, 2021 the court approved the debt restructuring arrangement proposed by the Corporation, Xfone and Xfone’s controlling shareholder (after approval of the debt restructuring arrangement by the creditors meeting) and the Corporation’s purchase offer.

Note 31 - Commitments (Cont'd)

D. Network sharing agreement with Marathon (Xfone) (Cont'd)

As of June 17, 2021 (the date of appointing the arrangement manager) according to the instructions of the arrangement manager, Xfone actually paid monthly amounts to the Company according to what was agreed with the arrangement manager.
During the year the Company made adjustments to the debt balance opposite Xfone in order to reflect the arrangements set forth in the Updated Sharing Agreement and recorded a provision of approximately NIS 14 million to the credit losses item in profit and loss. Total revenues from Xfone included in the financial statements for the year ended 2021 summed up to approximately NIS 57 million.

The primary terms of the Updated Sharing Agreement:

1. Arrangements for using the parties' relevant frequencies; management and operation using a joint corporation (the "**Joint Corporation**"); arrangements of the parties' holding of active components of the shared network; arrangements for future investments in the shared network's active components; arrangements for an indefeasible right of use (IRU) of these components, of each sharing party towards the other sharing parties; the grant of an indefeasible right of use (IRU) from the Group to Xfone and to the Joint Corporation with respect to the shared network's passive components; arrangements for services the Group shall provide the Joint Corporation as a subcontractor; arrangements for the parties' separation; and arrangements for adding an additional joint party. The Sharing Agreement includes Xfone's undertaking to obtain from the Ministry of Communications an amended cellular license and allocation of frequencies under the 2020 Tender, and to pay the license and frequency fees thereunder to the Ministry of Communications.
2. **The agreement period** – The agreement is made for 10 years from the Completion Date. This period shall be extended by additional periods, unless one of the parties announces otherwise. For circumstances allowing Xfone to shorten the period of the agreement to seven years, see subsection (4) below.
3. **The consideration –** The annual consideration to be received by the Group during the agreement period within the framework of the Xfone Agreement includes: (1) payment for the IRU on the active and passive components of the shared network; (2) payment for a certain share of Xfone in the cost of the active components of the shared network from the Completion Date; and (3) payment for participation in the regular operating costs of the shared network and the Group's 2G and 3G networks, according to the number of Xfone subscribers . The Company estimates that the total consideration from the Sharing Agreement, including participation in purchasing equipment for the shared network, shall amount to NIS 400-600 million over the period (10 years). In the Company's estimates, discounts as set forth in subsection (d) below, if granted, do not materially change the Company's estimates with respect to the total consideration from the Sharing Agreement, while shortening the agreement, if shortened, would proportionally reduce the total consideration.

Note 31 - Commitments (Cont'd)

D. Network sharing agreement with Marathon (Xfone) (Cont'd)

4. **Call option, loan option and put option** – Clear Communications Holdings Limited Partnership – the controlling shareholder in Xfone after completing Xfone's creditors' arrangement ("**Clear**") was granted the possibility to obligate the Company to purchase all (100%) of Xfone's share capital within a period of three to five and a-half years of completing the transaction, in consideration for NIS 130 million (that could increase in certain instances) ("**Call Option**"). Should such Call Option, which is contingent upon obtaining regulatory approvals from the Ministry of Communications and the Director General of Competition, not be exercisable, Clear shall have the option to obligate the Company to provide an interest bearing loan to Xfone in the same amount against collateral as agreed between the parties, and subject to applicable law ("**Loan Option**"). The Company is unable to estimate whether the Call Option shall be exercised, and if so, whether approvals necessary for exercising it shall be obtained and on what terms.

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

E. Collective employment agreements:

In April 2021, the Company and its subsidiary Dynamica, have entered into a collective employment agreement with the Company's employees' representatives and the Histadrut, an Israeli labor union, for a term of three years (2021-2023). The agreement includes policy and employment terms similar to those practiced with certain modifications, including a 3% average salary increase in 2022 and 2023 to entitled employees and mechanisms to allow the Company to improve its service level and operational excellence, among others, by constant improvement to our employees' quality and quantity. Employees' participation in the Company's gains – 12.5% over an annual operational net profit of NIS 400 million, divided quarterly, remains unchanged.

F. Investment agreements in IBC:

In July 2019, the Company completed the investment transaction in IBC (the "Transaction"). The Transaction comprises several agreements, the principal ones being as follows:

1. **Partnership Agreements -** The Group and IIF entered into agreements for the establishment of a limited partnership, jointly owned in equal parts, that will acquire 70% of the share capital of IBC (the "Purchaser" or the "IBC Partnership").

Note 31 - Commitments (Cont’d)

F. Investment agreements in IBC (Cont’d)

2. **Share Purchase Agreement (SPA) -** The Purchaser, IBC, Israeli Electric Corporation (“IEC”) and the other shareholders and main creditors of IBC entered an agreement for the purchase of 70% of IBC's issued and outstanding share capital, through investment by the Purchaser in IBC, for a total amount of approximately NIS 110 million (of which the Group paid half) (the "Consideration"), the majority of which given in the form of a shareholders' loan (the loans include an interest between 4% to 6% above the most senior debt). The other 30% of IBC's issued and outstanding share capital will be held by IEC.

3. **Shareholders Agreement -** The Purchaser and IEC (holding 70% and 30% of IBC's share capital, respectively) entered into a shareholders agreement. The agreement regulates the management of IBC, including certain arrangements regarding funding of IBC and dilution (and anti-dilution in certain circumstances) of shareholders that do not participate in financing.

4. **IRU Agreement -** The Group and IBC engaged in an agreement in the framework of which the Group acquired indefeasible rights of use (IRU) in 10-15% (the Group’s undertaking was 15% until the completion of Hot’s investment transaction in IBC, and currently it is 10%) of customers’ houses connected to IBC’s fiber optics, as shall be deployed by IBC in the next 15 years (including an extension option for additional periods at no additional consideration other than annual maintenance payments). The IRU consideration is subject to actual deployment to customers’ houses by IBC and shall be paid in 36 quarterly installations (9 years), in addition to annual maintenance payments. To ensure the payment in this agreement, the Company provided a bank guarantee in the amount of approximately NIS 35 million.

5. **IEC Services Agreement -** The IEC Services Agreement includes updated and improved pricing and arrangements for IBC's exclusive right to deploy its fiber-optics over the IEC's electricity network and other services provided by IEC to IBC in relation thereof.

6. In addition, in July 2019, the Group and IBC completed the transaction for the sale of the Company's independent fiber-optic infrastructure in residential areas to IBC, in consideration for the amount of approximately NIS 180 million. The IRU Agreement, including the Group’s obligation to purchase indefeasible right of use in a certain percentage of households in buildings connected to IBC’s fiber-optic infrastructure (as detailed above) also applies to the infrastructure purchased from the Company.

Note 31 - Commitments (Cont'd)

F. Investment agreements in IBC (Cont'd)

7. In September 2020, the Group engaged, together with IIF, in investment agreements with Hot Cable Communication Systems Ltd. (together with entities related to it) ("Hot") in IBC. In addition to standard, customary terms, the transaction includes an obligation to significantly increase the deployment of IBC's fiber-optic cable network (1.7 million households) in upcoming years, and most of the following:
   A. Investment agreements - between the IBC Partnership and Hot, in the framework of which Hot will become an equal partner in the IBC Partnership (so that each of the partners shall indirectly hold 23.3% of IBC's share capital), by performing an investment that is materially identical to the investment performed by each of the Group and IIF, by the transaction completion date. In addition, the investment agreements include additional corporate governance rights and other mechanisms.
   B. An agreement for purchasing IRU in IBC's fiber-optic infrastructure - between IBC and Hot, in the framework of which Hot undertakes to purchase indefeasible rights of use in IBC's fiber-optic network.
   C. Service agreements - between IBC and Hot, in the framework of which IBC undertakes to purchase certain services from Hot and is permitted to purchase additional services.
   D. IBC also undertakes to continue purchasing from the Group certain services that are provided to it by the Group, beyond the completion date.

In February 2021, the transaction was completed, after receiving the required regulatory approvals.

Note 32 - Contingent Liabilities

A. Legal actions

The Group is involved in various lawsuits against it deriving from the ordinary course of business. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded in the financial statements is based on a case-by-case assessment of the risk level, while events that occur in the course of the litigation may require a reassessment of this risk. The Group's assessment of risk is based both on the advice of its legal counsels and on the Group's estimate of the probable settlements amounts that are expected to be incurred, if such settlements will be agreed by both parties. The provision recorded in the financial statements in respect of all lawsuits against the Group amounted to NIS 82 million.

Most of the lawsuits and the motions for approval of class certification that are filed against the Group are claims by end customers of the Group, primarily for arguments regarding unlawful charges, conduct in violation of law or license, or breach of agreements with the customers, while causing pecuniary and non-pecuniary damages to the customers (hereinafter: "Consumer Claims"). In addition, various legal proceedings have been brought against the Group by employees, subcontractors, suppliers, authorities and others, most for arguments of violation of law with respect to termination of employment and mandatory payments to employees, arguments for breach of contract, copyright infringement, patent infringement and mandatory payments to authorities (hereinafter: "Other Claims").

Following the reporting period, In addition to the claims listed in the table, two claims and motions for approval as class actions were filed against the Group, totalling approximately NIS 47 million, at this preliminary stage their prospects of success cannot be estimated. Also seven claims and motions for approval as class actions ended in an amount estimated by the plaintiffs at approximately NIS 448 million.

Described hereunder are the outstanding lawsuits against the Group, classified into groups with similar characteristics. The amounts presented below are calculated based on the claims amounts as of the date of their submission to the Group:

Group of claims	**Exposure amount**	**Exposure amount for claims without an estimate of chance of success**	**Total**
Consumer Claims	1,697 (1) (2)	35	1,732
Other Claims	12	-	12
Total	**1,709**	**35**	**1,744**

(1) Including claims against the Group and other defendants together in a total amount of approximately NIS 700 million, without the Group noting the separate claim amount, and two additional claims against the Group and other defendants, while the amount being claimed from the Group was estimated by the plaintiffs at NIS 10 million.
(2) There are additional claims against the Group for which no claim amount was noted, for which Group may have additional exposure.

Note 32 - Contingent Liabilities (cont'd)

A. Legal actions (cont'd)

Described hereunder the number of amount of the claims as at December 31, 2021, broken down by amount of the claim:

Claim amount	**Number of claims**	**Total claims amount (NIS millions)**
Up to NIS 100 million *	47	479
NIS 100-500 million	2	555
Unquantified claims	16	-
Against the Group and other defendants together without specifying the amount claimed from the Group	2	700
Against the Group and other defendants together, in which the amount claimed from the Group has been quantified	2	10
Unquantified claims against the Group and other defendants	5	-
Total	**74**	**1,744**

* Including 34 claims filed against the Group by employees, subcontractors, suppliers, authorities and others as of December 31, 2021, with a total amount of approximately NIS 12 million.

Hereunder are detaNIS regarding claims and motions for approval of class certification against the Group, where the amount being claimed is NIS billion or more:

In June 2021 judgment was granted by the District Court in Lod in a class action filed against the Company in December 2014, alleging that the Company charged subscribers disconnecting from its services consideration for a billing cycle of a full month, even if the disconnection date was during the monthly billing cycle and not at the end, charging the Company to pay approximately NIS 32 million (including award to the plaintiff and attorney’s fee). The Company motioned and was granted delay of execution and in October 2021 lodged an appeal to the Supreme Court. Due to the judgment the Company included the entire amount in the other expenses item in the financial statements for Q4 2021.

B. Liens and guarantees

1. **Liens:** As part of issuance of the Series H to L debentures and the loan agreements which the Company entered into, the Company committed not to create liens on its assets, subject to certain exceptions.

2. **Guarantees:** The Group has given bank guarantees as follows:

   A. To government institutions - NIS 37 million.
   B. To suppliers and others - NIS 123 million.

Note 33 - Regulation and Legislation

A. In October 2018, regulations setting procedures for the construction, changes and replacement of access devices exempt from building permits, were enacted. Although these regulations reflect previous judicial limitations placed upon the Company's ability to make changes and replace radio access devices prior to their enactment, they also introduce a new licensing procedure that may reduce the Company's ability and make it more difficult for it to construct new radio access devices based on such exemption. In November 2021 legislative amendments were enacted under the Economic Policy Law, 5782-2021 (Arrangements Law) with respect to promoting the deployment of advanced communications infrastructure in Israel and reducing exposure to non-ionizing radiation and in such framework the existing regulatory arrangement was changed with regards to building permit exemption for establishing, replacing or adding to certain cellular sites and including cellular sites in the definition of National Infrastructure in order to ease the process of deploying communications infrastructure. There is no certainty with respect to the manner of implementing the legislative amendments, including by the various authorities, and therefore at this stage it is impossible to estimate the impact of the legislative amendments on the Company's activity.

B. In February 2020, the Ministry of Communications announced a retroactive reduction of wholesale service tariffs as determined in the past by the Ministry of Communications in connection with using Bezeq's copper cable infrastructure, and updating the tariff mechanism for 2019-2020. This reduction led to a return of amounts that the Company paid in the past to Bezeq, and to the offset of additional amounts in 2020 against payments paid or to be paid to Bezeq for these services, at a total amount of approximately NIS 31 million. In December 2020, the Ministry of Communications announced another significant reduction of the tariffs for the wholesale market, for using Bezeq's copper infrastructure for 2021. In November 2021, the Ministry of Communications published the demand indices for data capacity on Bezeq's network, which are used to determine the Wholesale Market tariffs over copper-wire infrastructure. These indices led to an increase in Wholesale Market tariffs over copper-wire infrastructure for 2022.

C. In March 2020, the Ministry of Communications informed the Group, and another mobile operator, that they are required to replace the frequencies allocated to them in the 850MHz band to frequencies in the 800MHz band, so that they conform with European standards and the region that the State of Israel is in. As of the date of the statements, the Group's bandwidth in the 850MHz frequency band was reduced from 10MHz to 5 MHz and was transposed to an alternative band. On a later date to be determined, the frequency band in the 850MHz range will be cancelled, and instead the Group will be offered a frequency band entirely in the 800MHz range. The Ministry of Communications will consider allocating part of the revenues from the frequency tenders in the 800MHz range or 900MHz range, if such tenders are conducted, to accelerate performing the tender replacement process as foregoing. The completion of the tender replacement as foregoing shall require significant investments and replacement of radio equipment in most of the Group's cellular sites.

D. In August 2020, the Company and Xfone, its partner in the Company's shared network, won additional frequencies for 4G and 5G broadcasts, in consideration for the payment of total licensing fees in the amount of NIS 115 million, which will be paid in September 2022. According to the conditions of the tender, grant will be given to the group that will meet the conditions of broadcast centers, the amount of the grant will determine according to the rate of layout.

E. In December 2020, the Communications Law was amended updating the duty to deploy fiber-optics and duties to provide the service for operators with a general license - that own their own infrastructure (which were previously required to perform universal deployment for all networks they deploy), and setting incentives for the encouraging infrastructure deployment in areas where there is no duty of deployment, according to economic profitability tests. The primary impact on the Group is imposing an additional tax at the rate of 0.5% of its annual revenues (as defined) from March 2021 (included in the annual report) and until the date of setting forth deployment obligations for each of the incentive areas.

Note 33 - Regulation and Legislation (cont'd)

F. In June 2021 the Ministry of Communications decided to shut down the 2G and 3G networks by the end of 2025. Such measure includes limitations on importing equipment that only supports such networks from the end of 2021 and limitations on connecting new subscribers holding such equipment from the end of 2022. Such measure shall allow the Group to save costs of operating those networks and utilize the vacant frequencies for improving performance of the 4G and 5G networks.

Note 34 - Related Parties

A. Balance sheet

	December 31, 2020	December 31, 2021
	NIS millions	
Current liabilities	1	**1**

* Debentures balance held by related parties, which includes debentures held for the benefit of the public, through, among others, provident funds, mutual funds and pension funds, as of December 31, 2021 and 2020, is NIS 17 million each.

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms:

	Year ended December 31,		
	2019	2020	2021
		NIS millions	
Income:			
Revenues	30	7	**5**
Expenses:			
Cost of revenues and other	10	5	**3**

In 2021 the Company recorded profits of NIS 39 million that derived from recording revenues from deploying fiber-optics for IBC after offsetting expenses (NIS 23 million in 2020). Such profits were recorded to the other revenues item in profit and loss.

In 2003, the Group engaged in a lease agreement of an asset with an area of approximately 58,000 sqm, including approximately 32,000 sqm to be used for the Group’s offices and including approximately 26,000 sqm used as an underground parking. Since 2015 the Group is leasing out part of the property. In November 2021 the Group extended the lease agreement for eight more years (from January 1, 2023 to December 31, 2030) only with respect to an area of 16,000 sqm serving the Group’s headquarters (without areas currently leased out to subtenants that are expected to go back to the possession of the owners at the end of 2022) and also with respect to underground parking areas. The Group has an option to extend the agreement for another period of 5 years. In light of reducing leased areas, rent and ancillary expenses decreased by approximately NIS 12 million per year, from 2021.

Note 34 - Related Parties (cont'd)

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms (cont'd)

The total insurance policies purchased in 2021 from Migdal Insurance Company amounted to about NIS 1 million in annual cost.

In the ordinary course of business, from time to time, the Group purchases, leases, sells and cooperates in the sale of goods and services or otherwise engages in transactions with entities that are members of the DIC/IDB group or other interested or related parties.

The Group has examined said transactions and believes them to be on commercial terms comparable to those that the Group could obtain from/ provide to unaffiliated parties.

C. Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to executive officers (such as a car, medical insurance, etc.).

The Group has undertaken to indemnify the Group's directors and officers, as well as certain other employees for certain events listed in the indemnifications letters given to them. The aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification letters is limited to the amounts the Group receives from the Group’s insurance policy plus 30% of the Group’s shareholders’ equity as of December 31, 2001, adjusted for changes in the Israeli CPI.

In August 2020, an update was made to the release and indemnity letters granted to directors on behalf of the controlling shareholders and to those to be granted to officers as of such approval date, as follows: (1) it was set forth that the maximum indemnity amount shall not exceed an amount equal to 25% of the Company’s equity according to its last consolidated financial statements before the date of paying the indemnity; and (2) it was set forth that the release shall not apply with respect to a decision or transaction in which a controlling shareholder of the Company or officer of the Company has a personal interest. This without derogating from the rights of directors and shareholders to which letters of release and indemnity were granted before the date of such approval.

Executive officers also participate in the Group’s share option program (see Note 23, regarding Share-Based Payments).

Key management personnel compensation is comprised of:

	Year ended December 31,		
	2019	**2020**	**2021**
		NIS millions	
Short-term employee benefits	4	3	**3**
Share-based payments	-	5	**-**
	4	8	**3**

Note 34 - Related Parties (cont'd)

D. Negligible transactions

The Group contractually engages from time to time in the ordinary course of business, in negligible, non-exceptional transactions, with interest holders of the following types and characteristics: providing communication services, purchasing various services such as securities distribution and marketing services, maintenance services for equipment and facilities used in the Company’s operations, transportation services, security services, marketing services, insurance services, management and maintenance services of buildings and rental of real estate.

According to Company protocols, in the absence of special quality considerations arising from all the case circumstances, such a transaction that is not an exceptional transaction will be considered a negligible transaction for the above purposes if the scope of the particular transaction does not exceed NIS 10 million and the transaction is less than 0.5%. from the relevant quantifiable test among the following indices: asset ratio – the volume of assets subject to the transaction (assets acquired or sold) divided by the total assets in the Company’s balance sheet; profit ratio – actual or projected profits or losses associated with the transaction divided by the average annual profit or loss (in absolute value) of the Company in the last twelve quarters ended before that transaction. For this purpose, “profit” or “loss” is: a net profit or loss for the year attributed to shareholders in the parent company; sales ratio – the total sales subject to the transaction divided by the total annual sales of the Company; operating expenses ratio – the volume of expenditure subject of the transaction divided by the total annual operating expenses and the cost of end equipment and the ratio of liabilities – the liability subject of the transaction divided by the total liabilities in the balance sheet before the event.

Note 35 – Subsequent events

Delisting the Company’s shares from trade on NYSE

According to the Company’s board resolution dated 18 January 2021, on 8 February 2021 the Company’s shares were voluntarily delisted from NYSE. For purpose of deregistration of the Company’s shares in the US, on 9 February 2022 the Company complied with the conditions for submitting a deregistration application and sent notice about ending its reporting obligations to the SEC, and on such date stopped reporting on the US stock exchange. The SEC has 90 days from such date to request clarifications when necessary in order for the approval of ending the reporting as foregoing to take final effect.

Cellcom Israel Ltd.

Separate Financial Information

As at December 31, 2021

(Audited)

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The accompanying audit report is a non-binding translation into English of the original audit report published in Hebrew. The version in Hebrew is the approved text.

To:
The shareholders of Cellcom Israel Ltd.
Netanya, Israel

Dear Sir/Madam

Re: Auditors' special report on separate financial information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970

We have audited the separate financial information disclosed in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970 of Cellcom Israel Ltd. (hereafter - "the Company") as of December 31, 2021 and 2020, and for each of the three years, the last of which ended on December 31, 2021. This separate financial information is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the financial information included in the financial statements of investees, of which the total assets less total liabilities, net amounted to approximately NIS 49 million and NIS 27 million as of December 31, 2021 and 2020, respectively, and the Company's share in their losses amounted to approximately NIS 21 million, NIS 22 million and NIS 1 million for the years ended December 31, 2021, 2020 and 2019, respectively. The financial statements of those investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar, as it relates to amounts included for those investees, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used in preparing the separate financial information and significant estimates made by the Company's board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the separate financial information is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970.

Tel-Aviv,
March 9, 2022

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Separate Information on Financial Position

	December 31, 2020	December 31, 2021
	NIS milions	
Assets		
Cash and cash equivalents	578	**387**
Current investments and deposits	310	**-**
Trade receivables	927	**765**
Current tax assets	3	**11**
Other receivables	32	**37**
Inventory	41	**47**
	1,891	**1,247**
Non-current assets		
Trade and other receivables	170	**183**
Property, plant and equipment, net	1,295	**1,291**
Intangible assets and others, net	431	**398**
Investments in investee companies	2,063	**2,313**
Loans to investees and capital notes	373	**383**
Right of use assets, net	607	**589**
	4,939	**5,157**
	6,830	**6,404**
Liabilities		
Current maturities of debentures and loans from financial institutions	514	**383**
Current maturities of lease liabilities	198	**167**
Trade payables and accrued expenses	581	**469**
Provisions	89	**102**
Loans from investees	90	**210**
Other payables, including derivatives	169	**262**
	1,641	**1,593**
Non-current liabilities		
Long-term loans from financial institutions	50	**-**
Debentures	2,723	**2,373**
Long-term lease liabilities	440	**455**
Provisions	30	**29**
Other long-term liabilities	41	**1**
Liability for employee rights upon retirement, net	9	**12**
Deferred tax liabilities	16	**21**
	3,309	**2,891**
	4,950	**4,484**
Equity		
Equity attributable to owners of the Company	1,880	**1,920**
Total equity	1,880	**1,920**
	6,830	**6,404**

The accompanying notes are an integral part of these Separate financial statements.

March 9, 2022			
Date of approving the financial statements	Doron Cohen Chairman of the board	Daniel Sapir CEO	Shai Amsalem CFO

Separate Information on Income

	Year ended December 31,		
	2019	2020	2021
	NIS millions		
Revenues	2,484	2,381	**2,660**
Cost of revenues	(1,967)	(2,020)	**(2,116)**
Gross profit	517	361	**544**
Sales and marketing expenses	(441)	(390)	**(428)**
General and administrative expenses	(217)	(237)	**(219)**
Credit losses	(27)	(25)	**(2)**
Other income (expenses), net	(12)	45	**48**
Operating Loss	(180)	(246)	**(57)**
Financing income	52	34	**18**
Financing expenses	(194)	(204)	**(171)**
Financing expenses, net	(142)	(170)	**(153)**
Shere in profit from investees companies	183	204	**241**
Profit (Loss) before taxes on income	(139)	(212)	**31**
Tax (expenses) income	32	42	**(4)**
Profit (Loss) for the year	(107)	(170)	**27**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Profit or Loss and Other Comprehensive Income

	Year ended December 31,		
	2019	2020	2021
		NIS millions	
Profit (Loss) for year	(107)	(170)	**27**
Other comprehensive income (loss) items that after initial recognition in comprehensive income were or will be transferred to profit or loss			
Changes in fair value of cash flow hedges transferred to profit or loss, net of tax	-	(2)	**1**
Total other comprehensive income (loss) for the year that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax	-	(2)	**1**
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Re-measurement of defined benefit plan, net of tax	(4)	2	**(2)**
Total other comprehensive income (loss) for the year that will not be transferred to profit or loss, net of tax	(4)	2	**(2)**
Total other comprehensive loss for the year, net of tax	(4)	-	**(1)**
Total comprehensive Profit (loss) for the year	(111)	(170)	**26**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Cash Flows

	Year ended December 31,		
	2019	2020	2021
	NIS millions		
Cash flows from operating activities			
Profit (Loss) for the period	(107)	(170)	**27**
Adjustments for:			
Depreciation and amortization	779	780	**729**
Share-based payments	8	20	**15**
Gain on sale of property, plant and equipment	(8)	-	**-**
Net change in fair value of investment property	6	7	**7**
Tax expenses (income)	(32)	(42)	**4**
Financing expenses, net	142	170	**153**
Shere in profit from investees companies	(183)	(204)	**(252)**
Changes in operating assets and liabilities:			
Change in inventory	37	(1)	**(6)**
Change in trade receivables (including long-term amounts)	223	154	**125**
Change in other receivables (including long-term amounts)	28	(3)	**(5)**
Change in trade payables, accrued expenses and provisions	(30)	34	**(96)**
Change in other liabilities (including long-term liabilities)	(20)	(89)	**76**
Payments for derivative hedging contracts, net	(10)	(3)	**(5)**
Income tax paid	(3)	(7)	**(8)**
Income tax received	10	-	**-**
Net cash from operating activities	840	646	**764**
Cash flows from investing activities			
Acquisition of property, plant and equipment	(291)	(262)	**(308)**
Acquisition of intangible assets and others	(216)	(181)	**(167)**
Investments in investee companies	(161)	(617)	**2**
Change in current investments, net	(20)	110	**310**
Receipts for other derivative contracts, net	9	1	**-**
Proceeds from sale of property, plant and equipment and intangible assets	181	-	**-**
Dividend received	40	195	**-**
Interest received	13	6	**1**
Net cash used in investing activities	(445)	(748)	**(162)**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Cash Flows (cont'd)

	Year ended December 31,		
	2019	2020	2021
	NIS millions		
Cash flows from financing activities			
Payments for derivative contracts, net	(2)	(6)	**1**
Receipt of long-term loan from financial institutions	150	-	-
Repayment of long-term loans from financial institutions	(212)	(212)	**(187)**
Repayment of debentures	(504)	(417)	**(389)**
Receipt from issuance of debentures, net of issuance costs	-	596	-
Repurchase of own debentures	(10)	-	-
Interest paid	(151)	(130)	**(121)**
Equity offering	309	5	-
Receipt of loan from investees	293	90	**120**
Proceeds from exercise of share options	4	140	-
Payment of principal of lease liabilities	(238)	(210)	**(215)**
Net cash used in financing activities	(361)	(144)	**(791)**
Changes in cash and cash equivalents	34	(246)	**(189)**
Cash and cash equivalents as at the beginning of the period	790	824	**578**
Effects of exchange rate changes on cash and cash equivalents	-	-	**(2)**
Cash and cash equivalents as at the end of the period	824	578	**387**

The accompanying notes are an integral part of these Separate financial statements.

Note 1- Basis of Preparation of the Financial Information

A. Definitions

"The company" – Cellcom Israel Ltd.

"Separate financial information" – separate financial information presented in accordance with regulation 9C and the tenth addendum to the securities regulations (Periodic and Immediate Reports) – 1970.

Unless stated otherwise, all the terms presented in the separate financial information are as defined in the Company's consolidated financial statements as of December 31, 2021 (hereinafter: "the consolidated financial statements").

"Investee companies" – Subsidiaries and companies, including a partnership or joint venture, the Company's investment in which is stated, directly or indirectly, on the equity basis.

"Inter-company transactions" – transactions between the company and her investees.

"Inter-company balance", "Inter-company revenues and expenses", "Inter-company cash flows" – balances, revenues or expenses, and cash flows, depending on the matter, arising from inter-company transactions, which eliminated in the consolidated financial statements.

B. Main basis of Preparation of the Financial Information

Presented hereunder is financial information from the Group’s consolidated financial statements as at December 31, 2020 (hereinafter – the consolidated financial statements), which are issued as part of the periodic reports, and which are attributed to the Company itself (hereinafter – separate financial information), and are presented in accordance with Regulation 9C (hereinafter – the Regulation) and the tenth addendum to the Securities Regulations (Periodic and Immediate Reports) – 1970 (hereinafter – the tenth addendum) regarding separate financial information of an entity.

The separate financial information does not constitute financial statements, including separate financial statements, prepared and presented in accordance with International Financial Reporting Standards (hereinafter: "IFRS") in general, and the provisions of International Accounting Standard 27 "Separate Financial Statements" in particular.
However, the accounting policies mentioned in Note 3 to the consolidated financial statements, regarding the main principles of the accounting policy, and the manner in which the financial data were classified in the consolidated financial statements, have been applied for the purpose of presenting this separate financial information, with the changes stated below.

The Notes provided below also include disclosures regarding additional material information, in accordance with the disclosure requirements stated in Regulation 9C and as detailed in the appendix and subject to clarification by the Authority's staff, insofar as such information refers the company itself is not included in the consolidated reports.

Note 1- Basis of Preparation of the Financial Information (cont'd)

C. Transactions between the company and its investees

1. Assets and liabilities included in the consolidated reports attributed to the Company itself

The assets and liabilities amounts included in the consolidated financial statements on the financial position are presented neutralization of intercompany balances cancellation that was canceled in the consolidated statements, and which attributed to the company itself and are classified according to the types of assets and liabilities. These data classified in the same way as in the consolidated financial statements.

The aforesaid amounts of assets and liabilities reflect the assets and liabilities included in the consolidated financial statements, with the exception of the amounts of assets and liabilities in respect of investee companies, plus or minus, as the case may be, intercompany balances canceled in the consolidated financial statements.

In addition, a net amount is presented, based on the consolidated financial statements attributed to the Company's owners, of the total assets, less the total liabilities, presented financial information in the consolidated financial statements regarding investee companies, including goodwill.

The aforesaid presentation results in a way that equity attributed to the owners of the company, on the basis of the consolidated reports, is equal to the equity of the company as derived from the separate financial information.

2. Incomes and expenses included in the consolidated reports attributed to the Company itself

The income and expenses amounts included in the consolidated statements are presented by segmentation for statement of income and other comprehensive income, after neutralizing the cancellation of intercompany income and expenses canceled in the consolidated statements, attributed to the company itself, and detailed by the types of income and expenses. These data classified in the same way as in the consolidated financial statements.

The aforesaid amounts of income and expenses reflect the income and expenses included in the consolidated income statements and the consolidated statements of comprehensive income, except for amounts of income and expenses in respect of investees, plus or minus, as the case may be, intercompany income and expenses that was canceled in the consolidated financial statements.

In addition, a net amount is presented, based on the consolidated statements, attributed to the Company's owners, of the total income less total expenses, which presented in the consolidated statements the results of operations in respect of investee companies, including impairment or cancellation of goodwill. These data are presented while segmenting between statement of income and other comprehensive income.

The aforesaid presentation results in the total of both profit for the year attributed to the owner of the company and the total comprehensive profit for the year attributed to the owner of the company, based on the consolidated reports, being the same as the total profit for the year attributed to the company owner and the total comprehensive profit for the year attributed to the company, respectively, as derived from the separate financial information.

3. Cash flows included in the consolidated reports attributed to the Company itself

The cash flow amounts included in the consolidated statements, which are attributed to the Company itself, as stated in the consolidated financial statements of cash flows (ie, the balances of the amounts after the inter-company cash flows in the consolidated statements have been eliminated), Segmented by cash flow from operating activities, cash flow from investing activities, cash flow from financing activities and their components. In addition, as part of each of the aforesaid activities, the net intercompany cash flows presented separately. These data classified in the same way as in the consolidated financial statements.

The aforesaid amounts reflects the cash flows included in the consolidated financial statements, except for the amounts of cash flows in respect of investee companies.

Note 2 - Financial instruments

Liquidity Risk

The following are the maturities of contractual financial liabilities and other non-contractual liabilities, including estimated interest payments and excluding the impact of netting agreements:

	December 31, 2021						
	Carrying amount	**Conractual cash flow**	**1st year**	**2nd year**	**3rd year**	**4-5 years**	**More than 5 years**
	NIS milions						
Debentures*	**(2,811)**	**(3,121)**	**(473)**	**(645)**	**(628)**	**(867)**	**(508)**
Trade and other payables	**(663)**	**(663)**	**(663)**	**-**	**-**	**-**	**-**
Forward exchange contracts on foreign currencies	**(4)**	**(4)**	**(4)**	**-**	**-**	**-**	**-**
Other long-term liabilities	**(1)**	**(1)**	**-**	**(1)**	**-**	**-**	**-**
Lease liabilities	**(622)**	**(697)**	**(180)**	**(128)**	**(99)**	**(144)**	**(146)**
	(4,101)	**(4,486)**	**(1,320)**	**(774)**	**(727)**	**(1,011)**	**(654)**

	December 31, 2020						
	Carrying amount	**Conractual cash flow**	**1st year**	**2nd year**	**3rd year**	**4-5 years**	**More than 5 years**
	NIS milions						
Debentures*	(3,161)	(3,588)	(481)	(469)	(641)	(1,120)	(877)
Long-term loans from financial institutions	(188)	(194)	(143)	(51)	-	-	-
Trade and other payables	(669)	(669)	(669)	-	-	-	-
Forward exchange contracts on foreign currencies	(8)	(8)	(8)	-	-	-	-
Other long-term liabilities	(40)	(40)	(2)	(38)	-	-	-
Lease liabilities	(638)	(693)	(206)	(161)	(95)	(125)	(107)
	(4,704)	(5,192)	(1,509)	(719)	(736)	(1,245)	(984)

* Including accrued interest

Note 3 - Taxes on income

A. Composition of tax on income (tax benefit)

	Year ended December 31,		
	2019	**2020**	**2021**
		NIS millions	
Current tax expense (income)			
Current year	9	-	**-**
Adjustments for prior years. Net	(3)	1	**(1)**
	6	1	**(1)**
Deferred tax expense (income)			
Creation and reversal of temporary differences	(38)	(43)	**5**
	(38)	(43)	**5**
Tax on income (tax benefit)	(32)	(42)	**4**

B. Reconciliation between the theoretical tax on pre-tax profit (loss) and the tax expense (income)

	Year ended December 31,		
	2019	**2020**	**2021**
		NIS millions	
Profit (loss) before taxes on income	(139)	(212)	**31**
Primary tax rate of the company	23%	23%	**23%**
Tax calculated according to the company primary tax rate	(32)	(49)	**7**
Additional tax (tax saving) in respect of:			
Non-deductible expenses	4	6	**5**
Taxes in respect of previous years	-	-	**-**
Other differences	(4)	1	**(8)**
Income tax expeneses (tax income)	(32)	(42)	**4**

Note 4 – Property, plant, equipment, intangible assets and other

	Property, plant and equipment	Intangible assets and others
	NIS millions	
Cost		
Balance at January 1, 2020	5,500	1,168
Additions	321	213
Disposals	(106)	(50)
Balance at December 31, 2020	5,715	1,331
Additions	**333**	**164**
Disposals	**(4)**	**-**
Balance at December 31, 2021	**6,044**	**1,495**
Accumulated Amortization		
Balance at January 1, 2020	4,179	740
Amortization for the year	347	210
Disposals	(106)	(50)
Balance at December 31, 2020	4,420	900
Amortization for the year	**337**	**197**
Disposals	**(4)**	**-**
Balance at December 31, 2021	**4,753**	**1,097**
Carrying amount at December 31, 2019	1,321	428
Carrying amount at December 31, 2020	1,295	431
Carrying amount at December 31, 2021	**1,291**	**398**

Note 5 - Commitments, loans and significant transactions with Investees

A. Investments and ownership interest in investee companies

	Company's ownership interest in the investee	Investments in equity accounted investees at December 31,		
		2020		2021
		NIS millions		
Cellcom Fixed Line Communication L.P.	100%	1,412	#	1,626
Golan Telecom Ltd.	100%	398	#	401
Dynamica Cellular Ltd.	100%	121	#	151
I.B.C (Unlimited) Holdings L.P.	50%	130	#	133
Other Companies	-	2	#	2
		2,063		**2,313**

Note 5 - Commitments, loans and significant transactions with Investees (cont'd)

B. Management Fee

The Company has an agreement with a number of investees to provide them management services. The company income from management fees in 2021 and 2020 amounted to 2 NIS million and 2 NIS million, respectively.

In addition, the company and Cellcom Fixed Line Communication L.P. maintain ongoing settlement for salaries expenses, rent expenses and other expenses for which the Company undertakes for the partnership.
Due to this settlement, the company reduced its expenses in the years 2021, 2020 and 2019 by approximately 228 NIS million, 266 NIS million and 282 NIS million, respectively.

C. Loans to investee companies

	December 31,	
	2020	2021
	NIS millions	
Loan to Golan Telecom Ltd. *	123	**133**
Capital Note - Golan Telecom Ltd.	250	**250**
	373	**383**

* The loan was granted as part of the sharing network agreement singing in 2017, half of which in includes an annual interest rate of 1.85% and is linked to the CPI, the other half includes an interest rate of 3.5% and is not linked.

D. Loans from investee companies

	December 31,	
	2020	2021
	NIS millions	
Current maturities of loan from Cellcom Fixed Line Communication L.P.	90	210
Long-term loan from Cellcom Fixed Line Communication L.P.	-	-
	90	**210**

The loan includes an annual interest rate of 2.6% and is not linked.

E. Dividend's and share of profits from limited partnerships

	December 31,		
	2019	2020	2021
	NIS milions		
Dynamica Cellular Ltd.	40	25	**-**
Cellcom Fixed Line Communication L.P.	700	510	-
	740	535	-

Note 6 - Events during and after the reporting period

A. For additional information regarding share based payments and exercise of share options, see Note 22 for the consolidated financial statements.

B. For additional information regarding the Covid-19 virus and his possible effects on the company, see Note 1 for the consolidated financial statements.

C. For additional information regarding the credit facility , see Note 10 for the consolidated financial statements.

D. For additional information regarding the company's network sharing agreements and Xfone discontinuation from paying part of the payments regarding it, see Note 31d for the consolidated financial statements.

Chapter D

Additional Details on the Corporation

December 31, 2021

Regulation 11(1) and 11(2) - List of investments in subsidiaries and related companies

The below table presents the Company's investments in subsidiaries and material related companies, as of the date of the report on the financial situation:

Company name	Share no. on TASE	Class of share	Number of shares	Total par value held by the Company	Value in the Company's separate financial statements (in NIS millions)	Rate of Company holdings		
						in equity	in voting rights	in power to appoint directors
Cellcom Wired Communications S.M.	-	-	-	-	**1,626**	100%	100%	100%
Golan	not traded	Ordinary of par value NIS 0.01	**21,664**	**216.64**	**651**	100%	100%	100%
Dynamica	not traded	Ordinary of par value NIS 1	**1,003**	**1,003**	**151**	100%	100%	100%

Regulation 11(3) - Remaining debentures and loans given and received by the Company to subsidiaries and related companies as of the date of the report on the financial situation

Name of loan-providing company	Name of loan-receiving company	Loan/capital notes balance as of December 31, 2021 (in NIS millions)	Main terms of the loans
The Company	Golan	383	The balance consists of: (a) a loan of NIS 133,000, half of which is index-linked and bears interest of 1.85% per annum, and half of which is unlinked and bears interest of 3.5% per annum. The loan was provided in April 2017, for a period of 10 years, and shall be repaid in 6 equal semi-annual installments starting from the eighth year of the agreement period (interest and index differentials to be accrued shall be paid starting from the sixth year); and (b) Capital notes of NIS 250 million. The capital notes are unlinked and do not bear interest, and their repayment date is not before September 2025.
Cellcom Wired Communications S.M.	The Company	210	Unlinked Shekel loans that are from time to time provided according to the framework agreement between the Company and the Cellcom Wired Communications S.M., for periods of up to 12 months. The loans bear interest at a rate identical to the interest set forth under Section 3(j) of the Income Tax Ordinance (as it changes from time to time, in 2020 2.62%) The agreement includes terms for extending the loan periods and their acceleration.

Regulation 12 - Change to investments in subsidiaries and material related companies during the report period

During the report period there were no changes in connection with the Company's investments in subsidiaries and/or material related companies, except as set forth below:

- On February 11, 2021, a transaction was completed according to the investment transaction that the Group engaged in with IIF and Hot, whereby Hot became an equal partner in the IBC partnership which holds 70% of IBC's issued share capital. After completing the transaction, the Group holds 23.3% of IBC's share capital (compared to 33% on the date before its completion). For additional details see Section 17.2 in Chapter A of this Immediate Report and Note 32G to the consolidated Financial Statements of the Company as of December 31, 2021.

Regulation 13: Revenue of subsidiaries and material related companies and the Company's revenue thereof

The table below sets forth the total profit (loss) of subsidiaries and material related companies of the Company (the profit data is the consolidated data of these companies), and the Company's revenue thereof that was received until the date of the report on the financial situation, for 2021 and for the period after the balance sheet date (in NIS millions):

Company name	Profit for the period:	Total profit incl. other for the period	Management fees (received until December 31, 2021)		Interest and linkage differentials (received until December 31, 2021)		Dividends[1] (received until December 31, 2021)	
			For 2021	For the period after the balance sheet date	For 2021	For the period after the balance sheet date	For 2021	For the period after the balance sheet date
Cellcom Wired Communications S.M.	**214**	**214**	**-**	**-**	**(3)**	**-**		**-**
Dynamica	**30**	**30**	**1**	**-**	**-**	**-**		**-**
Golan[2]	**25**	**25**	**2**	**-**	**9**	**-**	**-**	**-**

[1] Cellcom Wired Communications S.M. is a limited partnership, and accordingly it distributes its profits to the Company.

[2] Golan became a subsidiary of the Company on August 26, 2020. For details see Regulation 12 above.

Regulation 20: Trading on TASE

1. In 2021, 693,810 unregistered options[3] were exercised and 414,696 restricted shares units vested, so that as a result of such exercises and vesting, 550,300 Ordinary Shares were listed.
2. During 2022 and up to the date of publication of this report, 410,606 unlisted options were exercised,[4] so that as a result of such exercise, 107,431 ordinary shares were listed for trading.

[3] The unregistered options were exercised through a net exercise mechanism (for details see Footnote 6 below).

[4] See footnote 3 above.

Regulation 21 - Remuneration to interested parties and senior officers in 2021

Below are the details of the remuneration given in the reporting year, as recognized in the financial statements of the reporting year, to each of the five biggest remuneration holders among the senior officers in the Company or in companies under its control (including at least three senior officers in the Company itself), and which were given to them in connection with their tenure at the Company or companies under its control, as applicable (the amounts in NIS thousands):

Details of the remuneration recipient				Remuneration for services							Other remuneration			Total
Name	**Position**	**Scope of position**	**Rate in equity holding**	**Salary[5]**	**Grant**	**Share-based payment[6]**	**Management fees**	**Consulting Fees**	**Commission**	**Other**	**Interest**	**Rent**	**Other**	
Ilan Siegel[(a)]	VP of Business Development and CEO of Golan	100%	-	1,151	699	1,120	_	_	_	_	_	_	_	2,970
Eli Adadi[(b)]	VP of Retail and CEO of Dynamics	100%	-	994	875	757	-	-	-	-	-	-	-	2,626
Liat Menahemi [(c)]	VP Legal Affairs and Corporate Secretary	100%	-	1,070	753	665	-	-	-	-	-	-	-	2,488
Orly Pascal [(d)]	VP Human Resources	100%	-	1,081	728	665	-	-	-	-	-	-	-	2,473
Nadav Amsalem[(e)]	VP Business Customers		-	1,038	710	665	-	-	-	-	-	-	-	2,412

[5] The salary component includes the following components: Gross salary, social and related contribution fees as customary with the Company (such as vacation days, sick days, convalescence fees, officers insurance fund, advanced study fund, pension, severance pay, life insurance, incapacity to work insurance, National Insurance payments, vehicle, medical insurance, telephone, tax grossing up for the benefits etc.).

[6] The amount set forth in the above table in the column "Share-based payment" expresses the costs registered in the Company's consolidated financial statements for the relevant period due to share-based remuneration, based on the fair value of the relevant option on their grant date, according to the accounting rules in connection with share-based remuneration.

Below are additional details about the senior officers' terms of service and employment that are set forth in the above table:

(a) **Mr. Ilan Siegel has been serving as CEO of Golan and VP of business development at the Company since February 1, 2021. Mr. Siegel's employment agreement is for an unlimited period and may be terminated at any time by either party, with three-months prior notice during the first three years of his employment, and thereafter with six-months prior notice, according to the Company's remuneration policy. For his tenure as CEO of Golan and VP at the Company, Mr. Siegel is entitled to the following main terms: (a) A monthly salary of NIS 75,000 (linked to the Consumer Price Index); (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; (e) the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. In the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality.**

On February 1, 2021, following the approval of the Remuneration Committee and the Company's Board of Directors, the Company allocated to Mr. Siegel 604,746 options (unlisted) that can be exercised into 604,746 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's equity remuneration plan,[7] totaling approximately NIS 1.8 million. The options will be matured in three equal portions after one, two years and three years from the date of their grant.

(b) **Mr. Eli Adadi has been the Company's CEO of Dynamics and VP of Retail since November 23, 2020. Mr. Adadi's employment agreement is for an indefinite period and can be terminated at any time by either party, with three months' notice for the first three years of his employment and then, with six months' notice, in accordance with the Company's Remuneration Policy. In respect of his tenure as CEO of Dynamics and VP of the company, Mr. Adadi is entitled to the following terms: (a) A monthly salary of NIS 60,000 (linked to the Consumer Price Index);[8]**

[7] According to the net exercise mechanism, upon exercising, the offeree does not pay the exercise price but rather it is issued shares the number of which shall be determined according to the benefit amount which the employee is entitled to and which is derived from the number of options it exercised, multiplied by the discrepancy between the market price of the share upon exercise and the exercise price of the option.

[8] Starting from January 1, 2022 the monthly salary of Mr. Adadi is NIS 75,000.

(b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund as customary in the Company; **(c) a vehicle on behalf of the Company; (d)** directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; (e) **the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. I**n the framework of the agreement provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality. In addition, following the approval of the Remuneration Committee and the Company's Board of Directors, after the termination of his employment, Mr. Adadi is entitled to a three-month adjustment period.

On November 22, 2020, following the approval of the Remuneration Committee and the Company's Board of Directors, the Company allocated Mr. Adadi 203,164 options (unlisted) that can be exercised to 203,164 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's equity remuneration plan,[9] with a total value of approximately NIS 882 thousands.[10] The options will be cooked in three equal portions after one year, two years and three years from the date of granting them..

(c) **Ms. Liat Menahemi has been serving as VP Legal Affairs and Corporate Secretary since March 16, 2006. For her tenure as VP Legal Affairs and Secretary, Ms. Menahemi is entitled to the following terms: (a) A monthly salary of NIS 70,000 (linked to the Consumer Price Index);**[11] (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund as customary in the Company; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; and (e) **the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy.** Ms.

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[9] See Footnote 6 above.

[10] Prior to his appointment as an officer in the Company, Mr. Adadi was granted options and blocked share units, as part of his previous position. The total capital compensation package of Mr. Adadi was at that time a total value of approximately NIS 1.8 million.

[11] Starting from May 2019, the base salary of the Company's officers was reduced by a rate of 10% for a limited period, in the framework of the terms of the collective employment agreement that was executed between the Company, the employees' representatives, and the Histadrut, on May 1, 2019 (the "**Collective Employment Agreement**"). For additional details regarding the Collective Employment Agreement, see Section 14.6 in Chapter A of this Periodic Report.

Menahemi's employment agreement is for an unlimited period and may be terminated by six-months prior notice. Similarly, in the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and regarding confidentiality.

In addition, further to the approval of the Company's remuneration committee and board of directors, after the termination of her employment, Ms. Menahemi is entitled to an adjustment period of six months.

On June 15, 2020, further to the approval of the Company's remuneration committee and board of directors, the Company allocated 523,000 (unregistered) options to Ms. Menahemi that are exercisable into 523,000 Ordinary Shares of the Company, according to a net exercise mechanism under the Company's equity remuneration plan,[12] in total value of approximately NIS 1.8 million. The options shall vest in three equal portions one year, two years, and three years after their grant date.

(d) **Ms. Orly Pascal served as VP Human Resources in the Company from January 1, 2020 Until January 15, 2022. For her tenure as VP Human Resources, Ms. Pascal is entitled to the following terms: (a) A monthly salary of NIS 68,000 (linked to the Consumer Price Index);** (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund as customary in the Company; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; and (e) **the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy.** Ms. Pascal's employment agreement is for an unlimited period and may be terminated at any time by either party, with three-months prior notice during the first three years of her employment, and thereafter with six-months prior notice, according to the Company's remuneration policy. Similarly, in the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality.

On June 15, 2020, further to the approval of the Company's remuneration committee and board of directors, the Company allocated 523,000 (unregistered) options to Ms. Pascal that are exercisable into 523,000 Ordinary Shares of the Company, according to

[12] See Footnote 6 above.

a net exercise mechanism under the Company’s equity remuneration plan,[13] in total value of approximately NIS 1.8 million. The options shall vest in three equal portions one year, two years, and three years after their grant date. Upon termination of its employment, the second and third options, which have not yet matured by this date, will expire, in accordance with the Company's capital compensation plan.

(e) **Mr. Nadav Amsalem has been the Company’s VP of Business Customers since July 20, 2017. For his tenure as VP of Business Customers, Mr. Amsalem is entitled to the following terms: (a) a monthly salary of NIS 69,000 (linked to the Consumer Price Index);[14] (b) customary related terms including vacation days, sick days, officers insurance fund and advanced study fund as customary with the Company; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company’s officers and directors; and** (e) **the possibility of being entitled to an annual bonus and special bonus according to the Company’s remuneration policy. Mr. Amsalem's employment agreement is for an indefinite period and can be terminated with 6 months’ prior notice. Similarly, in the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality.**

On June 15, 2020, following the approval of the Remuneration Committee and the Company’s Board of Directors, the Company allocated Mr. Amsalem 523,000 options (unlisted) that can be exercised into 523,000 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's equity compensation plan,[15] with a total value of approximately NIS 1.8 million. The options will be matured in three equal portions after one year, two years and three years from the date of their grant.

[13] See Footnote 6 above.

[14] See Footnote 10 above.

[15] See Footnote 6 above.

Remuneration for interested parties

The following is a breakdown of the remuneration granted in the reporting year, as recognized in the financial statements for the reporting year, to each of the corporation's interested parties, and which were given to them in connection with their tenure in the Company or Company under its control, as applicable (amounts in thousands of NIS):

Details of Remuneration Recipient				Remuneration for services							Other remuneration			Total
Name	Position	Scope of employment	Capital holdings rate	Salary[16]	Bonus	Share-based payment	Management Fees[17]	Consulting fees	Commission	Other	Interest	Rental fees	Other	
Avi Gabbay	Former CEO	100%	-	1,812	963	(585)	-	-	-	-	-	-	-	2,190

[16] The salary component includes the following components: Gross salary, social and related contribution fees as customary with the Company (such as vacation days, sick days, convalescence fees, officers insurance fund, advanced study fund, pension, severance pay, life insurance, incapacity to work insurance, National Insurance payments, vehicle, medical insurance, telephone, tax grossing up for the benefits, etc.)

[17] The amount set forth in the above table in the column "Share-based payment" expresses the costs registered in the Company's consolidated financial statements for the relevant period due to share-based remuneration, based on the fair value of the relevant option on their grant date, according to the accounting rules in connection with share-based remuneration.

Mr. Avi Gabbay served as the Company's CEO from January 19, 2020 until January 22, 2021. Mr. Gabbay's employment agreement is for an unlimited period and may be terminated at any time by either party, with three-months prior notice during the first three years of his employment, and thereafter with six-months prior notice, according to the Company's remuneration policy. Similarly, in the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality. For his tenure as CEO of the Company, Mr. Gabbay is entitled to the following main terms: (a) a monthly salary of NIS 110,000 (linked to the Consumer Price Index); (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors. Similarly, according to his employment agreement, Mr. Gabbay may be entitled to an annual bonus and special bonus according to the Company's remuneration policy

On March 5, 2020, the Company's general meeting approved a bonus of 4,153,472 (unregistered) options to Mr. Gabbay, which are exercisable into Ordinary Shares of the Company according to a net exercise mechanism under the Company's equity remuneration plan,[18] in total value of approximately NIS 12 million. Upon termination of his employment, the third, fourth and fifth options, which have not yet matured as of this date, will expire, in accordance with the Company's equity remuneration plan.

Further to the delisting of the Company's shares from trading on NYSE on February 8, 2021, the directors serving in the Company and those who shall serve there from time to time, shall be entitled to a participation remuneration the Companies Regulations (Rules regarding Remuneration and Expenses for an External Director), 5760-2000 ("Remuneration Regulations") according to the Company's rating and starting from January 1, 2022 also depending on whether the director is an "expert director" not an expert. Notwithstanding the foregoing, the directors who served in the Company as of the removal date of the Company's shares from trading on NYSE continued to receive participation remuneration and annual remuneration of the 'maximum amount' for a director in a company whose shares are listed for trade on a stock exchange outside Israel ("Dual-listed Company"), as set forth in the Remuneration Regulations, until the end of their tenure.

[18] According to the net exercise mechanism, upon exercising, the offeree does not pay the exercise price but rather it is issued shares the number of which shall be determined according to the benefit amount which the employee is entitled to and which is derived from the number of options it exercised, multiplied by the discrepancy between the market price of the share upon exercise and the exercise price of the option

Meaning, the ordinary directors who served in the Company at said time, including the independent director, continued to receive such remuneration in the maximum amount to directors in such Dual-listed Company until the end of the annual meeting of the Company (which was held on December 30, 2021), whereas the external directors serving in the Company shall continue to receive such remuneration until March 2022. The directors are not entitled to a bonus or equity remuneration.

For 2021, the Company paid all the directors remuneration totaling approximately NIS 1,413,000. These remuneration terms comply with the provisions of the Company's remuneration policy.

Similarly, the directors serving in the Company, as they shall be from time to time, are entitled to directors and officers liability insurance, indemnification, and release, as accepted with respect to the Company's officers and directors, for details see Regulation 29A below.

Regulation 21A - The controlling shareholders

- As of the date of publication of this Report, the controlling shareholder of the Company is DIC, a public company whose securities are traded on TASE, which holds approximately 45.93% of the Company's issued share capital and approximately 48.2%[19] of its voting rights, through Koor Industries Ltd. ("**Koor**"), a fully owned subsidiary.

- It is noted that 5% of the Company's issued share capital that is held by DIC through Koor, held by means of a lending transaction by two private companies incorporated in Israel (2.5% to each company), Wior Communications Ltd. and Blejer Communications Ltd., which at the relevant dates were fully owned by Mr. Mauricio Wior, who served as an officer of the Company and of DIC and Mario Blejer, who served as an officer of DIC, in accordance with the manner in which the Israeli holding requirements included in the Company's cellular license were complied with. Later, for transferring indirect control of the Company to a group of investors led by Mega Or Holdings Ltd. ("**Mega Or**") (as detailed below), and becoming the Israeli entity in the Company, the loan transaction was completed and the shares were returned to Koor, half in May and half in August 2021.

[19] Out of which approximately 2.09% under an agreement with other shareholders of Cellcom.

- Until September 2020, to the best of the Company's knowledge, Dolphin Netherlands BV ("**Dolphin Netherlands**"), through Dolphin IL Investments Ltd. ("**Dolphin IL**"), a company that it fully owns and that is incorporated in Israel, it held approximately 82.26% of the issued share capital and voting rights in DIC. To the best of the Company's knowledge, the controlling shareholder of Dolphin Netherlands is Mr. Eduardo Elsztain, through corporations under his control.

- On September 25, 2020, the court appointed official receivers for DIC's shares owned by Dolphin IL, and on November 20, 2020, the court approved the sale of approximately 82.26% of DIC's shares (under a receivership procedure) to a group of investors led by Mega Or, subject to obtaining the approvals required by law.

- On March 25, 2021, DIC reported the transfer of shares that constitute approximately 47.4% of DIC share capital to a group of investors led by Mega Or, of which shares constituting approximately 24.9% of DIC's share capital were transferred to Mega Or, on April 21, 2021, DIC reported the transfer of shares that constitute 5% of DIC's share capital to Mega Or, so that Mega Or holds approximately 29.9% of DIC's share capital and on June 3, 2021, Elco Ltd. announced that it completed the acquisition of approximately 29.8% of DIC's issued share capital.

  As of March 25, 2021, DIC is a company without a controlling shareholder and no longer constitutes a "layer company" within the meaning of this term in the Law for the Promotion of Competition and the Reduction of Centralization, 5774-2013 (the "**Concentration Law**"). As of this date, the Company is considered a "first layer company" (as the term is defined in the Concentration Law).

Regulation 22 - Transactions with a controlling shareholder

Below are details, to the Company's best knowledge, about transactions with the controlling shareholder or which the controlling shareholder has a personal interest in approving, in which the Company, companies under its control, or its related companies engaged in the reporting year or on a date following the end of the reporting year and until the filing date of the report, or still being in effect as of the report date:

a. **Transactions set forth in Section 270(4) of the Companies Law, 5759-1999 ("Companies Law")**:

- For details about release, indemnity, and insurance arrangements that are granted to directors serving the Company on behalf of its controlling shareholder, see Regulation 29A below.

b. Transactions not set forth in Section 270(4) of the Companies Law that are not negligible[20]

The Group contractually engages from time to time in the ordinary course of business, in negligible, non-exceptional transactions, with the controlling shareholder or in transactions in which the controlling shareholder has a personal interest in their approval, of the following types and characteristics: providing communication services, purchasing various services such as securities distribution and marketing services, maintenance services for equipment and facilities used in the Company's operations, transportation services, security services, marketing services, services, management and maintenance services of buildings and rental of real estate.

According to Company protocols, in the absence of special quality considerations arising from all the case circumstances, such a transaction that is not an exceptional transaction will be considered a negligible transaction for the above purposes if the scope of the particular transaction does not exceed NIS 10 million and the transaction is less than 0.5%. from the relevant quantifiable test among the following indices: asset ratio – the volume of assets subject to the transaction (assets acquired or sold) divided by the total assets in the Company's balance sheet; profit ratio – actual or projected profits or losses associated with the transaction divided by the average annual profit or loss (in absolute value) of the Company in the last twelve quarters ended before that transaction. For this purpose, "profit" or "loss" is: a net profit or loss for the year attributed to shareholders in the parent company; sales ratio – the total sales subject to the transaction divided by the total annual sales of the Company; operating expenses ratio – the volume of expenditure subject of the transaction divided by the total annual operating expenses and the cost of end equipment and the ratio of liabilities – the liability subject of the transaction divided by the total liabilities in the balance sheet before the event.

For additional details see Note 34 to the annual financial statements.

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[20] The controlling shareholder of the Company is DIC. For the sake of caution and in light of the provisions of section 268 of the Companies Law, the Company will only refer to this regulation, also to Elco Ltd. and Mega Or Holdings Ltd. as controlling shareholders, due to their holdings in DIC.

Regulation 24 - Holdings of interested parties and senior officers of the corporation

For details about holdings of interested parties and senior officers in the Company's securities close to the report date, to the best of the Company's knowledge, see the immediate report of the Company dated January 16, 2022, which is included in this Report by way of reference.

For details regarding options allocated by the Board of Directors to the Company's CEO and which the Company's shareholders meeting approved on February 28, 2022, see the private placement report dated January 23, 2022 and the general meeting convening report dated January 23, 2022, included in this report by way of reference.

For details about options allocated by the Board of Directors to officers of the Company, see the private placement report dated March 2, 2022, included in this report by way of reference.

Regulation 24A - Registered share capital, issued share capital, and convertible securities

For details regarding the registered share capital and the issued and outstanding share capital of the Company, including regarding convertible securities, see Note 21 to the Financial Statements.

Regulation 24B - Shareholders registry

For details regarding the registry of the Company's shareholders, to the best of the Company's knowledge, see the Company's immediate report dated March 2, 2021, regarding capital position, granting rights to purchase shares and securities registers of the corporation and changes in it which is hereby included by way of reference.

Regulation 25A - Registered address, telephone, fax, and email

The corporation's registered address: 10 Ha-Gavish, POB 4060, Netanya.
Telephone number: 052-9989595
Fax: 09-8607986
email: liatme@cellcom.co.il

Regulation 26 - The directors of the corporation

For details regarding the directors serving in the Company as of the publication date of the report, see **Annex A**, attached to this Report.

Regulation 26A - Senior officers

For details regarding the Company's senior officers that are not members of the board of directors, see **Annex B**, attached to this Report.

Regulation 26B - Independent authorized signatories

As of the report date, the Company has no independent authorized signatories, as such term is defined in Section 37(d) of the Securities Law.

Regulation 27 - The corporation's auditing CPA

Kesselman & Kesselman Accountants (PWC Israel), 146 Menachem Begin Street, Tel Aviv-Yafo, 6492103.

Regulation 28 - a change in the memorandum or articles of association of the corporation

For details regarding changes made to the Company's Articles of Association approved at the Company's shareholders' meeting dated December 30, 2021, see the Company's immediate report dated December 30, 2021 regarding changes to the Articles of Association which is hereby included by way of reference.

Regulation 29 - Directors' recommendations and resolutions

The Board of Directors' recommendations to the General Meeting and the decisions of the Board of Directors that do not require the approval of the General Meeting (Regulation 29 (a))

On November 25, 2021, the Company's Board of Directors recommended that the Company's Articles of Association be updated.

Resolutions of an extraordinary general meeting (Regulation 29(c))

- On December 30, 2021, the Company's general meeting approved the following resolutions (see the Company's immediate reports dated December 22, 2021 and dated December 30, 2021:

(1) The reappointment of the following directors who serve in the Company: Shmuel Hauser Varda Liberman for an additional three-year term of office starting on March 29, 2022.

(2) Approval of changes to the Company's Articles of Association.

(3) Approval of changes to the Company's remuneration policy so that it shall be valid until the end of the three years from the date of approval of the general meeting that approved the policy, i.e. from August 12, 2020.

(4) Appointment of the chairman of the Company as temporary CEO of the Company until the date of commencement of the appointment of a new CEO.

- On February 28, 2022 the General Meeting of the Company approved (see the Company's immediate reports dated January 23, 2022 and dated February 28, 2022, the following resolution:

(1) Approval of the remuneration terms of the incoming Company CEO, Mr. Daniel Sapir (for details see immediate reports of the Company dated January 23, 2022).

Regulation 29A - Company resolutions

Release, insurance, or indemnity undertaking, for an officer, in effect on the report date (Regulation 29A(4))

a. Directors and officers liability insurance

On January 27, 2021, the Company's remuneration committee approved a liability insurance policy for the Company's directors and officers, starting from February 5, 2021, and until February 4, 2022, which grants the Company's directors and officers an insurance coverage with a liability limit of up to a cumulative amount of USD fifty million, plus reasonable legal costs. The annual premium is approximately USD 1.387 million. The deductible for a Company claim in the insurance policy for claims against officers is up to USD five million, depending on the cause of action and place it is submitted, and in claims against directors and offers there is no deductible. The terms of such insurance policy are identical with respect to all the Company's officers and directors (including with respect to the Company's CEO and with respect to directors serving therein on behalf of the Company's controlling shareholder).

On January 27, 2022, the Company's remuneration committee approved a liability insurance policy for the Company's directors and officers, starting from February 5, 2022, and until February 4, 2023, which grants the Company's directors and officers an insurance coverage with a liability limit of up to a cumulative amount of USD fifty million, plus reasonable legal costs. The premium for the policy for the current insurance period is lower than that paid by the Company for the insurance period of the policy that ended on February 4, 2022. The terms of the policy (including the premium and the deductible) meet the criteria set forth in the Company's Remuneration Policy in relation to the officers' insurance approved at the Company's shareholders meeting in December 2021. The terms of such insurance policy are identical with respect to all the Company's officers and directors (including with respect to the Company's CEO and with respect to directors serving therein on behalf of the Company's controlling shareholder).

b. Obligation for directors and officers indemnity and release

The Company granted letters of release and indemnity to directors and officers who serve and served in the Company from time to time, and to officers who on behalf of the Company serve and served from time to time in other corporations in which the Company has the means of control (as such are defined in the Companies Law), directly and/or indirectly ("**Other Corporation**"), including to the Company's CEO.

In the framework of the letters of indemnity and release, the Company undertook to indemnify the foregoing for any liability or expense and/or reasonable litigation costs, as set forth in the letter of indemnity, which shall be imposed thereon due to their actions, by virtue of their being officers in the Company and/or officers or employees on behalf of the Company in an Other Corporation, provided the maximum indemnity amount for financial liabilities to be imposed on the foregoing following a judgement (including a judgement given in a settlement or arbitral ruling that was approved by the court) shall not exceed (cumulatively for all the officers, in a single case and cumulatively for all cases) an amount equal to the total insurance rewards, which the Company shall receive from time to time in the framework of any liability insurance of officers in the Company, plus an amount equal to 30% of the Company's equity according to its audited financial statements dated December 31, 2001, it being adjusted from time to time according to the increase in the Consumer Price Index rate since that day (the "**Maximum Indemnity Amount**"). It is clarified that the indemnity shall apply beyond the amount to be paid (if any) in the framework of the directors and officers liability insurance that the Company purchased or shall purchase from time to time.

In addition, in the framework of the letters of indemnity and release, the Company released the foregoing from any liability towards it (to the extent that this is permitted under law), with respect to any damage that it shall sustain by the foregoing, through their actions by virtue of their being officers in the Company and/or officers or employees on behalf of the Company in an Other Corporation, following a violation of the duty of care (except for damage due to a violation of the duty of care in distribution), as defined in the Companies Law.

On August 12, 2020, the Company's general meeting, further to the approval of the Company's remuneration committee and board of directors, approved the renewed granting of letters of release and indemnity in identical form to the directors who from time to time serve and served in the Company on behalf of the Company's controlling shareholder, for a period of three years. In this framework the form of the letters of release and indemnity that were granted to the directors on behalf of the controlling shareholder was updated, as well as those to be granted to officers from such approval date onwards, thus: (1) It was determined that the maximum indemnity amount shall not exceed an amount equal to 25% of the Company's equity according to its latest consolidated financial statements prior to the indemnity payment date; and (2) it was determined that the release shall not apply with respect to a decision or transaction in which the Company's controlling shareholder or any officer have a personal interest. All this without derogating from the rights of the directors and officers, who were granted the letters of release and indemnity before such approval date.

Daniel Sapir CEO	Doron Cohen Chairman of the Board of Directors

March 9, 2022

Annex A - Details Regarding Directors of the Corporation as of the Report Date[21] (Under Regulation 26)

Name of director	Doron Haim Cohen, Chairman	Gustavo Traiber	Shmuel Hauser	Varda Liberman	Eran Shenar	Itamar Yehuda Regev	Michael Joseph Salkind	Baruch Itzhak
ID number	056681562	011148426	053488342	05369319	029509825	024217879	022972020	029274693
Date of birth	September 27, 1960	November 3, 1961	May 13, 1955	February 1, 1948	August 17, 1972	February 5, 1969	April 18, 1967	July 19, 1972
Address for service of judicial documents	ToHa Tower, 114 Yigal Alon, Tel Aviv	39 Rupin, Tel Aviv	19 Amirim, Savion	8 Pa'amoni, Tel Aviv	78 Egoz, Neve Yarak	Shilat Industrial Zone, PO Box 117, rural post Center	53 Hagdarot, Savyon	TOHA Tower, 114 Yigal Alon , Tel Aviv
Citizenship	Israel	Israel	Israel	Israel	Israel	Israel	Israel	Israel and US
Board committee memberships	Security Committee; Option Committee	Audit Committee; Cost Analysis Committee; Security Committee; Risk Management Committee; Remuneration Committee	Audit Committee; Cost Analysis Committee; Security Committee; Remuneration Committee; Risk Management Committee;	Audit Committee; Cost Analysis Committee; Option Committee; Remuneration Committee;	-	-		Security Committee
External director or independent?	No	Independent director	External director	External director	No	No	No	No
Commencement of director's term	March 23, 2020	March 28, 2019	March 29, 2019	March 29, 2019	September 14, 2020	May 20, 2021	June 24, 2021	August 2, 2021
Expertise in financial accounting or professional qualifications?	Expertise in accounting and finances	Expertise in accounting and finances	Expertise in accounting and finances	Professional qualifications	-	-	-	Expertise in accounting and finances
Education	BA in Economics and Accounting, Tel Aviv University MA in Law, Bar Ilan University	BA in Political Science and International Relations, The Hebrew University of Jerusalem; certified in Business	BA in Statistics and Economics, The Hebrew University of Jerusalem; certified	BA in Statistics and Mathematics, Tel Aviv University; certified in	BA in Economics and Accounting, Tel Aviv University; certified in	BA in Economics and Business Administration, Bar Ilan University	BA in Business Administration from Boston University, USA; BA in Business Administration from	BA of Business Administration, College of Management; CPA.

[21] During the period of the Report, the Company was served by the following directors, Yoram Turbowicz, Mauricio Wior and Aaron Kaufman, who no longer serve as of the date of publication of the Report.

Name of director	Doron Haim Cohen, Chairman	Gustavo Traiber	Shmuel Hauser	Varda Liberman	Eran Shenar	Itamar Yehuda Regev	Michael Joseph Salkind	Baruch Itzhak
		Administration, expertise in financing, Interdisciplinary Center Herzliya.	in Financing and Business Administration, The Hebrew University of Jerusalem; Ph.D., Temple University (Florida).	Mathematics, Tel Aviv University; Ph.D. in Mathematics, Tel Aviv University.	Business Administration with expertise in financing, strategy, and entrepreneurship, Tel Aviv University.		Columbia University, USA	
Employment in the past 5 years	2020 - today: CEO of DIC, indirect controlling shareholder of the Company; Chairman of Board of Directors of Epsilon Investment House Ltd.; 2021- Today: CEO of Property and Building Corporation Ltd.; Chairman of the Board of Mehadrin Ltd. and Chairman of Epsilon Underwriting and Issuances Ltd.; 2015 - today: Founding partner of Credito Ltd. 2015 - 2019: Chairman of the board in IBC Israel Broadband Company (2013) Ltd.; 2014 - 2020: External Director of the Lachish Industries Ltd.;	2006 - today: Owner of Traiber Investments Ltd.; 2014 - today: Owner and CEO, Spain-Israel Investments Ltd.; 2010 - 2014: CEO and partner in Sun Team Group Ltd.	2006 - today: Vice President Ono Academic College; 1995 - today: Professor of Finance, Ben Gurion University of the Negev; 2011 - 2018: Chairman of the Israel Securities Authority; 2020 - today: Consultant for eToro. 2006 - today: CEO and Chairman of NaraTV Productions Ltd. 2011-2018: Co-chairman of the Israel Accounting Standards Board; 2011-2018 member of the Advisory Committee to the Supervisor of Banks; 2017-today: Member of the Advisory Committee to the	1995-today: Staff member at the Arison School of Business, Interdisciplinary Center Herzliya (rank of prof.); 2016-today: Founder and Head of the MBA program in healthcare innovation, Interdisciplinary Center Herzliya; 2012-today: Head of decision-making, Arison School of Business, Interdisciplinary Center Herzliya; 1995-today: Head of Mathematics-Statistics studies, Interdisciplinary Center Herzliya; engaged in giving lectures on the topic of decision-making; provides consulting and	2015-today: Entrepreneur and owner in Set Medical Ltd. and the Multidisciplinary Center for Gastroenterology; 2010-today: Economic and business consultant	2011- today: CEO of Mega Or Holdings Ltd.	Dec 1999 – today: Co-CEO of Elco Ltd.; From Oct 2011 - today: Director of Elco Ltd.; May 2010 - today: Chairman of the Board of Electra Ltd.; serves as director in companies of the Elco Group Ltd. 2017-2020: director in Golan Telecom Ltd.; June 2021 – November 2021: director in Mehadrin Ltd.	July 21 to date: CFO of Discount Investment Company Ltd.; May 2020 to date: CFO of Property and Building Corporation Ltd.; 2018-2020: CEO of Sapir Corp. Ltd.; 2016-2018 VP of Elad US Holding Inc .; 2016-2018: Chairman and CEO of Elad National 2017 LLC

Name of director	Doron Haim Cohen, Chairman	Gustavo Traiber	Shmuel Hauser	Varda Liberman	Eran Shenar	Itamar Yehuda Regev	Michael Joseph Salkind	Baruch Itzhak
	2018 - 2020: External director at IDO Group Ltd.		Capital Market Authority, Insurance and Savings; 2019-2020: Member of the Advisory Committee of CyberRight Tech; 2020-today: Member of the Investments Committee of the Israel Democracy Institute	training for organizations.				
Additional corporations where he/she serves as director	Director at the following companies: Property & Building Corporation Ltd., Elron Ventures Ltd., Bayside Land Corp Ltd., , RDS Rafael Development Company, ORT Braude College of Engineering (chairman of the board of trustees); Civil Service Commission (member of the appointments committee and member of the service committee); Credito Ltd.; and private companies	External director of Adama Agricultural Solutions Ltd.; Director in Agro Exchange ltd.	External director of Gazit Globe Ltd.; independent director of Alrov Properties & Lodgings Ltd.; chairman of the board at Pocketful Ltd.; Member of the board (and partner) at Quantex Expected Returns.	-	Director of the following companies: Best Medical Advance Medicine Ltd.; MBA Management and Initiatives Ltd.; Gastro Experts H.Y.S.Y. Ltd.	Director of (private) holding companies of Mega Or Holdings Ltd. and a company privately owned by it.	Director of the following companies: Elco Ltd. and Discount Investment Company Ltd., Electra Real Estate Ltd., Electra Consumer Products (1970) Ltd. (and private companies from this group), Supergas Energy Ltd. (and private companies from this group), G. Zalkind Ltd., Michael and Marcy Zalkind Holdings (1997) Ltd., Theater of Dreams Ltd., Meet in Place Inc., Elco Hospitality Ltd. and private	Director of the following companies: Mehadrin Ltd., Epsilon Investment House Ltd., Elron Ventures Ltd. (replacement), IDB Group Investments Inc. and holding companies of Discount Investment Company Ltd. and Property and Building Corporation Ltd.

Name of director	Doron Haim Cohen, Chairman	Gustavo Traiber	Shmuel Hauser	Varda Liberman	Eran Shenar	Itamar Yehuda Regev	Michael Joseph Salkind	Baruch Itzhak
	held by DIC.						companies from the Elco Group Ltd., Property & Building Corporation Ltd., Elron Ventures Ltd.	
Is he/she an employee of the Company, of a subsidiary, or of a company affiliated therewith, or of an interested party therein, and the roles that he/she fulfills as foregoing	CEO of DIC and CEO of the Property and Building Corporation Ltd..	No	No	No	No	CEO of Mega Or Holding Ltd ("Mega Or"); appointed by Mega Or as director at company qualified as the "Israeli entity" at the company according to the cellular license of the company	No	VP of Finance at Discount Investment Company Ltd. and VP of Finance at the Property and Building Corporation Ltd.
Is he/she a family member of an interest party in the Company	No	No	No	No	No	No	No	No
Does the Company consider him/her an expert in accounting and finance for purpose of meeting the minimum number determined by the board of directors under Section 92(a)(12) of the Companies Law	Yes	Yes	Yes	No	No	No	No	Yes

Annex B - Details Regarding the Corporation's Senior Officers as of Report Date[22] (Under Regulation 26A)

Name of officer	Daniel Sapir	Shai Amsalem[23]	Liat Menahemi	Daphna Agassi	Nadav Amsalem	Ilan Sigal	Yaniv Koriat
ID number	027701747	025218355	22061238	027990134	027443043	038304127	038551586
Date of birth	April 18, 1970	May 29, 1973	October 23, 1966	November 24, 1970	October 6, 1974	December 7, 1975	February 12, 1976
Commencement date of tenure	January 25, 2022	September 13, 2020	March 16, 2006	March 1, 2022	July 20, 2017	February 1, 2021	March 15, 2020
Role in the Company	CEO	CFO	VP Legal Affairs and Corporate Secretary	VP Marketing	VP Business Customers	VP Business Development	CTO
Position fulfilled in a subsidiary, related company or interested party of the Company	Director in the following companies: Cellcom Holdings (2001) Ltd.; Dynamica Communications Chain Store Ltd.;; Netvision Ltd.; 013 Netvision Landline Communications Ltd.; IBC Holdings GP Ltd; Golan Telecom Ltd.; Golan Telecom International Ltd.; Golan Tel Communication (2011) Ltd.	CFO of Golan Telecom Ltd.; director in the following companies: Cellcom Holdings (2001) Ltd.; CMG Management Network Ltd.; Safeway - Data Protection Solutions; IBC Holdings GP Ltd.	Director in IBC Israel Broadband Company (2013) Ltd.	-	Director in the following companies: Safeway Data Security Solutions Ltd.; Cellcom Fixed Line Communications Inc.	CEO of Golan Telecom Ltd.	Director in the following companies: CMG Management Network Ltd.; CG Management Network Ltd.
Is he/she a family member of a senior officer in the Company or of a different interested party in the Company	No	No	No	No	No	No	No

[22] During the period of the report, the following officers Avi Gabbay, Atara Litvak-Shaham and Orly Pascal, who no longer serve at the time of publication of the report, served in the Company.

[23] Mr. Shai Amsalem will end his term as Chief Financial Officer at the Company at the time of publication of this report and will be replaced by Mr. Gadi Atias who will take office on March 11, 2022. For further details see the Company's immediate report dated March 2, 2022.

Name of officer	Daniel Sapir	Shai Amsalem[23]	Liat Menahemi	Daphna Agassi	Nadav Amsalem	Ilan Sigal	Yaniv Koriat
Education	BA of Business Administration, College of Management; Master of Business Administration, Ono Academic Campus.	BA in Economics and Business Administration with expertise in accounting, College of Management Academic Studies. Certified in business administration with expertise in financing, College of Management Academic Studies.	LLB in Law, Haifa University; BA in English and French Languages and Literature, Haifa University; member of Israel Bar Association and New York Bar Association	Physical Education graduate with a specialization in cardiac rehabilitation, Wingate Institute; Master's in Business Administration with a specialization in marketing, University of Heriot-Watt (UK)..	-	BA in Business Administration with expertise in communications and marketing, College of Management Academic Studies; certified in business administration, Ono Academic College.	B.Sc.in Electrical Engineering and Electronics, Ariel University; MBA, The Open University.
Employment in the last five years	January 2022-today: CEO of the Company 2012-2022 CEO of Tikshoov Group.	September 2020-today: CFO of the Company; 2017-today: CFO of Golan Telecom Ltd. 2012-2016 - CFO of Tiv Taam Group	VP Legal Affairs and Secretary	March 2022 - Today: VP of Marketing at the company; 2014 - 2022: VP Marketing at Golan; 2008 - 2013: VP Marketing and Spokeswoman at Better Place (Israel); 2005 - 2008 VP Marketing at Mirs Motorola Communications; 1997 - 2004: Marketing Manager at the company.	July 2017-today: VP Business Customer of the Company; 2014-2017: Strategic customer department manager in the Company.	2021-today: VP Business Development and CEO of Golan Telecom Ltd. January 2019-January 2020: VP Marketing and Business Development in Yes - D.B.S. Satellite Services (1998) Ltd. January 2019-January 2020: VP Marketing and Business Development in Bezeq International Ltd. 2016- 2020: VP Marketing in Pelephone Communications Ltd. 2006-2010: Marketing directors for the private sector and soho in Bezeq The Israel Telecommunication Corporation Ltd.	2015-2020: Director of IP and Transport Engineering of the Company.

Name of officer		Teimuraz Romashvili	Victor Malka	Eli Adadi	Ami Shtramer	Iizhak Ravid	Ronen Shles
ID number		313974123	069478923	033141383	040849713	052761384	23077316
Date of birth		January 1, 1979	August 7, 1956	August 26, 1976	April 30, 1981	August 24, 1954	November 9, 1967
Commencement date of tenure		October 23, 2011	March 18, 2020	November 23, 2020	July 6, 2021	March 14, 2017	December 1, 2014
Role in the Company		VP Sales and International Activity	Chief Information Officer	VP Retail	VP Customer Service	Internal auditor	Accountant
Position fulfilled in a subsidiary, related company or interested party of the Company		-	-	CEO of Dynamica Communications Chain Store Ltd.	-	Internal auditor of DIC; Internal auditor of Elron Electronic Industry Ltd.	Director in the following companies: G.B. Satellite Holdings Ltd. Barak I.T.C. (1999) - The International Telecommunications Corporation (Satellite Holdings) Ltd.; Cellcom Fixed Line Communications Inc.
Is he/she a family member of a senior officer in the Company or of a different interested party in the Company		No	No	No	No	No	No
Education		BA in Economics and Management, The Kyiv National Economic University, Ukraine.	B.Sc. Mathematics, Technion - Israel Institute of Technology; M.Sc. in Performance Analysis and Systems Analysis, Technion - Israel Institute of Technology.	BA in Business Administration, Ben Gurion University of the Negev; certified in Business Administration with expertise in marketing, Ben Gurion University of	-	BA in Accounting and Economics, Tel Aviv University	BA in Accounting and Business Administration, College of Management Academic Studies.

Name of officer		Teimuraz Romashvili	Victor Malka	Eli Adadi	Ami Shtramer	Iizhak Ravid	Ronen Shles
				the Negev.			
Employment in the last five years		2011-2020: VP Pre-Paid Activity of the Company	March 2020-today: Chief Information Officer of the Company; 2019-2020: Active communications consultant; 2012-2019: Director of Information Systems Division at the Technology Division in Bezeq The Israel Telecommunication Corporation Ltd.; 2012-2017: Director of Management Systems Division at Bezeq The Israel Telecommunication Corporation Ltd.	2011-today: CEO of Dynamica Communications Chain Store Ltd.	2021 - Today: VP of customer service at the company; 2021 -2020: Customer Service Manager in the Business Customers Division; 2014 - 2020: Gold / VIP Domain Manager in the Business Customers Division	Managing partner at Raveh Ravid & Co., Accountants	Company accountant

<u>Annual report regarding the effectiveness of internal control over financial reporting and disclosure pursuant to regulation 9B(a)</u>

The Management, under the supervisions of the Board of Directors of Cellcom Israel Ltd. (hereafter: the "**Company**") is responsible for determining and maintaining appropriate internal control over financial reporting and of disclosure in the Company.

In this regard, the members of the Management are as follows:

1. Daniel Sapir, CEO
2. Shai Amsalem, CFO

The internal control over financial reporting and disclosure includes the existing controls and procedures in the Company, which were determined by the Chief Executive Officer and the senior corporate financial officer or under their supervision, or by someone who in practice carries out these functions, under the supervision of the Company's Board of Directors and which are intended to provide a reasonable degree of assurance regarding the reliability of financial reporting and the preparation of the reports according to the provisions of the law and to ensure that the information which the Company is required to disclose in the reports that it publishes according to the provisions of the law is gathered, processed, summarized and reported on the dates and in the format prescribed by law.

The internal control includes, among other things, controls and procedures that were determined to ensure that the information which the Company is required to disclose was accumulated and submitted to the Company's Management, including the Chief Executive Officer and the senior corporate financial officer or someone who in practice fulfills these functions, in order to facilitate decision making at the appropriate time, with regard to the disclosure requirements.

Due to its structural constraints, internal control over financial reporting and disclosure is not intended to provide absolute assurance that misrepresentation or the omission of information in the reports will be prevented or revealed.

The management, under the supervision of the Board of Directors, performed an examination and assessment of the internal control over financial reporting and disclosure in the Company and its effectiveness.

The assessment of the internal control over financial reporting and disclosure performed by the management, under the supervision of the Board of Directors included:

Mapping and identifying the accounts and business processes which the Company considers to be very material to the financial reporting and disclosure; Examining key controls and reviewing the effectiveness of the controls; Internal control components included control on accounting period closing processes, editing and preparation of the financial statements and disclosures, controls at the organization level, general controls on information systems and controls in business processes that were defined as very material on the financial reports such as: revenues, expenses, salary and taxes.

Based on the assessment of the internal control performed by the management, under the supervision of the Board of Directors, as described above, the Board of Directors and the Management of the Company have come to the conclusion that the internal control over financial reporting and disclosure in the Company as of December 31, 2021 is effective and no material deficiencies and weaknesses were discovered.

Executive Statements

The statement of the CEO according to regulation 9B(d)(1)

I, Daniel Sapir states as follows:

1. I have reviewed the annual report of Cellcom Israel Ltd. (hereinafter – the "**Company**") for the year 2021 (hereinafter – the "**reports**");
2. Based on my knowledge, the reports do not contain any misrepresentation of a material fact or omit any representation of material fact required so that the representations included therein, in light of the circumstances under which such representations were made, are not misleading with respect to the reports period;
3. Based on my knowledge, the financial statements and other financial information included in the reports adequately reflect in all material aspects the financial position, the results of operations and cash flows of the Company for the dates and periods to which the reports relate;
4. I have disclosed to the Company's auditor, the Board of Directors and the Company's audit committee, based on my most recent assessment regarding the internal control over financial reporting and disclosure:
    a. All material deficiencies and weaknesses in determining or operating the internal control over financial reporting and disclosure, which could reasonably adversely affect the Company's ability to gather, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with law; and –
    b. Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure;
5. I, by myself or together with others in the Company, state that:
    a. I have determined such controls and procedures, or ascertained the determination and fulfillment of controls and procedures under my supervision, intended to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Law (Annual Financial Statements) – 2010, is made known to me by others in the Company and the subsidiaries, particularly during the period in which the reports are being prepared; and –
    b. I have determined such controls and procedures, or ascertained the determination and fulfillment of such controls and procedures under my supervision, intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;

c. Assessed the effectiveness of the internal control over financial reporting and disclosure, and presented in this report the conclusion of the Board of Directors and the Management with respect to the effectiveness of the internal control as aforesaid as of the date of the reports.

The foregoing does not derogate from my responsibility or the responsibility of any other person under any applicable law.

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Daniel Sapir

CEO

Date: 9 March 2022

<u>The statement of the highest ranking officer in finance according to regulation 9B(d)(2)</u>

I, Shai Amsalem states as follows:

1. I have reviewed the financial statements and other financial information included in the reports of Cellcom Israel Ltd. (hereinafter – the "**Company**") for the year 2021 (hereinafter – the "**reports**");
2. Based on my knowledge, the financial statements and other financial information included in the reports do not contain any misrepresentation of a material fact or omit any representation of material fact required so that the representations included therein, in light of the circumstances under which such representations were made, are not misleading with respect to the reports period;
3. Based on my knowledge, the financial statements and other financial information included in the reports, adequately reflect in all material aspects the financial position, the results of operations and cash flows of the Company for the dates and periods to which the reports relate;
4. I have disclosed to the Company's auditor, the Board of Directors and the Company's audit committee, based on my most updated assessment regarding the internal control over financial reporting and disclosure:
    a. All material deficiencies and weaknesses in determining or operating the internal control over financial reporting and disclosure to the extent it relates to the financial statements and other financial information included in the reports, which could reasonably adversely affect the Company's ability to gather, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with the provisions of the law; and –
    b. Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure.
5. I, by myself or together with others in the Company, state that:
    a. I have determined such controls and procedures, or ascertained the determination and fulfillment of controls and procedures under my supervision, intended to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Law (Annual Financial Statements) – 2010, is made known to me by others in the Company and the subsidiaries, particularly during the period in which the reports are being prepared; and –
    b. I have determined such controls and procedures, or ascertained the determination and fulfillment of such controls and procedures under my supervision, intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;
    c. Assessed the effectiveness of the internal control over financial reporting and disclosure, to the extent it relates to the financial statements and other financial information included in the reports as of the date of the reports; my conclusions with respect to my assessment as aforesaid were brought before the Board of Directors and the Management and are included in this report.

The foregoing does not derogate from my responsibility or the responsibility of any other person under any applicable law.

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Shai Amsalem, CFO

Date: 9 March 2022