Convenience translation into English of Cellcom Israel Ltd.'s Annual Report for the year ending on December 31 2023 (**"Annual Report"**) filed with the Israeli Securities Authority, on March 12, 2024

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

Cellcom Israel Ltd.

2023 Periodic Report

Table of Contents

Chapter A – Description of the Company's Business

Table of Contents

1. Definitions

For the sake of convenience, the following are definitions of key terms appearing in this chapter:

"The Company" or **"Cellcom"**	-	Cellcom Israel Ltd.
"The Group"	-	The Company along with its subsidiaries.
"DIC"		Discount Investment Corporation Ltd.
"Koor"		Koor Industries Ltd.
"Bezeq" or **"Bezeq Group"**	-	Bezeq the Israeli Communications Company Ltd. and its subsidiaries.
"Golan"	-	Golan Telecom Ltd.;
"Dynamica"	-	Dynamica Communications Chain Stores Ltd.
"The Financial Statements"	-	The Company's Consolidated Financial Statements as of December 31 2023 included in Part C of this Periodic Report.
"Report of the Board of Directors"	-	Board of Directors' Report on the State of the Company's Affairs as of December 31 2023 included in Chapter B of the periodic report.
"HOT" or "**HOT Group"**	-	Hot Telecommunications Systems Ltd. and its subsidiaries.
"HOT Mobile"	-	HOT Mobile Ltd. (of the HOT Group).
"Permit"	-	The general permit applies to those who are registered in the
"IRU Agreement"		registry by virtue of the registry regulations
"Wecom"	-	Wecom Mobile Ltd.
"Consumer Protection Law"	-	The Consumer Protection Law, 1981 and resulting regulations.
"The Securities Law"		The Securities Law, 1968.
"The Radiation Law"	-	The Non-Ionizing Radiation Law, 2006.
"Planning and Construction Law"	-	The Planning and Construction Law, 1965.
"Communications Law"	-	The Communications Law (Telecom and Broadcasts), 1982
"IO"	-	International Calls Service Operator (International Operator).

"MNO"	-	Mobile Network Operator, cellular operator owning infrastructure and frequencies.
“Virtual Operator” or **“MVNO”.**	-	A licensed supplier who provides mobile telephone services provided over the telecommunications network of some other authorized supplier (meaning a cellular operator that has no network and frequencies and who purchases hosting services from some other operator or holder of infrastructure and MNO license).
“Registry”		Registry of Bezeq communications services provider that need to be recorded in accordance with the Communications Law.
“Cellcom TV”	-	Over the internet television (OTT) including television channel broadcasts, video on demand (VOD) services and other advanced characteristics.
"Cellcom Energy”		Cellcom Energy (2023) Limited Partnership.
“Licensed Provider”		License holder or company listed in registry.
“Pelephone”	-	Pelephone Communications Ltd. (of the Bezeq Group).
“Telegraph Order”	-	The Wireless Telegraph Order [New Version], 1972.
“Partner”	-	Partner Communications Ltd.
“End Equipment”	-	Various types of mobile telephone devices, hands-free devices and various accessories (such as chargers, wireless earphones and more), tablets, mobile computers, modems, speakers, smart watches and other associated electronic products. In addition – IT and communications equipment (servers, routers, switches and more).
“Consolidated License”	-	General license to provide telecommunications services that allows the provision of various types of services provided Cellcom Linear Communications SM
“Wholesale Market”	-	As detailed in section 21.6.2. above.
“Cellcom Partnership”	-	Cellcom Fixed Line Communications L.P
“IBC Partnership”	-	IBC (Unlimited) Holdings Limited Partnership
"IBC"	-	IBC Israel Broadband Company (2013) Ltd.
“Registry Regulations”		The Communications Regulations (Telecommunications and Broadcasts) (General Permit for the Provision of Telecommunications Services), 2022.

“IIF”	-	Israel Infrastructure Investments Fund 3 SM
"GSM"	-	Digital cellular network technology used in most countries around the world.
"GPRS"	-	Data communications standard on the GSM network that allows the transfer of content and internet access.
"EDGE"	-	Data communications standard on the GSM network, constituting an upgrade of the GPRS network.
"HSPA"	-	High speed packet access – a wireless cellular communications protocol intended for a regional communications network connecting urban networks and local networks.
"HSPA+"	-	An upgrade to HASPA technology.
“IOT Solutions”		Internet of Things solutions, which allow connecting various end user products to the internet, such as “smart city” solutions.
"LTE"	-	Radio Technology Standard – mobile telephone (MNO) allowing high-speed data transfers.
"OTT"	-	Over The Top – technology using public internet infrastructure in order to provide video services upon demand.
"UMTS"	-	Universal Mobile Telecommunication System or the global cellular telephone system, is one of the 3rd generation technologies of cellular telephony. HSPA technology on the UMTS network is one of the prominent standards of 3rd Generation.
"VOB"	-	Voice Over Broadband, IP telephone services on land-based broadband access.
"IP"	-	Internet Protocol, which allows uniformity of voice, data and video services on the same network.
"VOIP"	-	Voice over IP, a general name for various technologies and methods for transferring speech over IP networks, such as the internet.
"**RSUs**"		Blocked share units.
“SAR Level”	-	Regarding mobile phones held by the body, the level of non-ionizing radiation emitted from the telephone is measured at the specific absorption rate in living tissue, the SAR index.

"SDH" - Synchronous Digital Hierarchy, a technological standard for transferring data over optical media.

"Carrier Ethernet" - A transmission network for transferring data using IP technology.

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

This chapter presents a business description for Cellcom Israel Ltd. and the development of its business in 2023 ("**the Reported Period**"). Express if noted otherwise, the data appearing in this report is accurate as of December 31 2023.

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

1.1. General

Cellcom is an Israeli communications group that provides a wide variety of communication services in Israel, in two operating segments, the mobile operating segment, and the landline operating segment. The Group is the largest provider of cellular services in Israel with a significant presence both in the private sector and in the business sector. The Company was incorporated in Israeli as a limited shares company on January 31 1994, and in February 2007 is shares were listed for trade for the first time on the New York Stock Exchange ("**NYSE**"), and in July 2007, in a dual manner, its shares were listed for trade for the first time on the Tel Aviv Securities Exchange Ltd. ("**TASE**").

On February 8 2021 the Company's shares were voluntarily delisted from trade on NYSE ("**the Delisting Date**") and on May 9 2022, after the Company approached the United States Securities and Exchange Commission to cancel the Company's shares from NYSE and concluded its reporting obligation to the SEC, the registry of the Company's shares was concluded and its reporting obligations to the SEC were discontinued. Staring from the Delisting Date, the Company moved to a reporting format in accordance with Chapter F of the Securities Law applicable to reporting companies in Israel, while until the Delisting Date the Company filed reports in Israel in accordance with Chapter E3 of the Securities Law applicable to dual companies[1].

Over the course of its years of activity, Cellcom has leaded significant revolutions in the Israeli communications market, starting from breaking Bezeq's monopoly over the cellular market, to building a business transmission network, and presenting an innovative solution for internet-based television (OTT). Cellcom continued to develop and grow via mergers in the field of communications, key of which included: purchasing the fixed line activity of 013 Netvision Ltd. and merging into with the cellular activity to a communications group, investment along with IIF in IBC while reducing dependent on linear communications providers, purchasing Golan in 2020 and strengthening the Group's position as the country's largest cellular operator, the entrance of HOT as IBC partner as a lever for expansion and development of the fiber infrastructure and the network sharing agreement with Wecom, as detailed in this chapter below.

[1] Note that until the date the Company's reporting obligations to the SEC were suspended on February 9 2022, the Company continued filing reports to the SEC in accordance with U.S. securities laws as its shares remained registered.

Subsequently, in 2022 Cellcom began its activity in the field of electricity, and in 2023 it entered into a founders' agreement to establish Cellcom Energy, to provide electricity to business and private customers.

1.2. **Control of the Company**

1.2.1. On June 29, 2022, DIC, the Company indirect controlling shareholders, announced that the DIC Board of Directors had decided, among other things, to instruct DIC Management to evaluate the disposal of all or part of DIC's holdings in the Company, in whole or in part, in a single transaction, or in several transactions. Subsequently, DIC announced that in August 2022 it engaged with an investments banker, who will accompany it in the process of examining and selling Company shares, and reported that it had sold in off-market transactions to a number of bodies not related to DIC, Company shares constituting 9.9% of the Company's issued and paid-up capital. For DIC's stake in the Company's shares as of the publication of the report, see Regulations 21a in Chapter D (Additional Information Regarding the Corporation), to this periodic report.

1.2.2. On February 5 2023, DIC reported that on February 2 2023 approval was received from the Ministry of Communication for the sale of up to an additional 9.5% of DIC's holdings (indirectly) in the Company, in a manner whereby DIC's holding in the Company after the sale in question, will not fall below 26% each of DIC's means of control in the Company. DIC made it clear in its report that as of the date of its report there is no certainty that it will be selling its holdings in the Company, as noted, in whole or in part.

1.2.3. On December 5 2023 DIC reported that on December 4 2023 it had engaged with Fortissimo Capital Fund VI L.P. ("**Fortissimo**") in a non-binding memorandum of understanding for the sale of all of its holdings (35.6%) in the Company at a value of NIS 2.6 billion for the Company, reflecting proceeds of NIS 925 million for DIC's holdings in the Company ("**the Memorandum of Understanding**"). DIC noted in its reports that in accordance with the terms of the Memorandum of Understanding, Fortissimo was given two weeks to perform due diligence and enter into a binding purchasing agreement, which will be subject to the receipt of the required regulatory approvals.

1.2.4. On December 18 2023 DIC announced that it had entered into an agreement with Fortissimo to sell its holdings in the Company's shares (some 35.57%) in return for a total of NIS 925 million, reflecting a value of NIS 2.6 billion for the Company ("**the Agreement**", "**the Proceeds**", and "**the Transaction**", respectively). The Proceeds shall be linked to the Consumer Price Index starting from the end of three months from signing the agreement inasmuch as the transaction is not completed as of that date. In addition, in the event that the Transaction is completed after the publication of additional Company Financial Statements (yearly or quarterly), meaning after the publication date of the Company's Yearly Financial Statements and any other subsequent report, 50% of the profits of the Company attributed to DIC's share (35.57%) shall be added to the sum for the period after the September 30 2023 Financial Statements, as will be expressed in the Financial Statements as noted (or a parallel subtraction in the case of losses) ("**Price Adjustment**"). DIC noted in its report that the Agreement includes various presentations by the parties, including a presentation by DIC regarding information in reports the Company published for the public. DIC's responsibility for the presentations was limited by sums and periods as accepted in these types of agreements. Fortissimo may perform the purchase through a new legal entity that will be established for the purposes of the purchase and in which Fortissimo will hold most means of control.

As noted by DIC, in accordance with the terms of the agreement, as of the signing of the Agreement, a total of NIS 46 million is deposited by Fortissimo at an external trustee, and as of the completion of the transaction it shall be transferred to DIC as part of the proceeds, and it shall be transferred to DIC in the event that the preconditions (as defined below) are met and the transactions is not completed by Fortissimo.

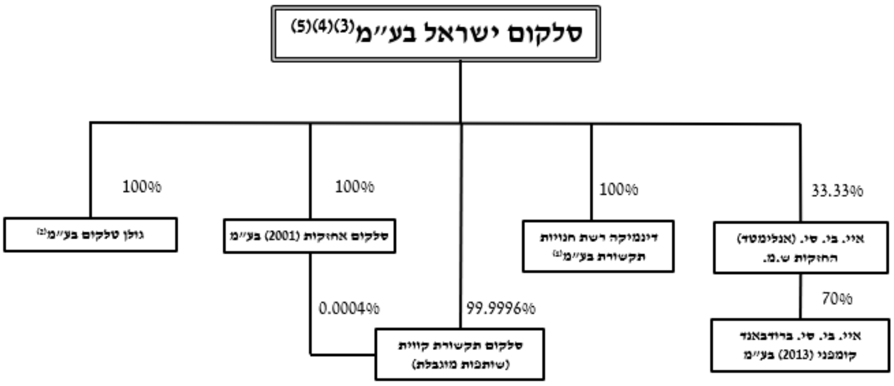
The full proceeds, including the sum deposited in trust as noted, shall be paid to DIC in a single installment upon completing the transaction after the preconditions set in the Agreement are met: receipt of approvals from the ministry of Communications, the Electricity Authority and the Antitrust Commissioner ("**The Preconditions**"). In accordance with the terms of the agreement, the final date for the preconditions to be met shall fall no later than 120 days from the engagement in the agreement, and may be extended by either party to the agreement by 60 additional days.

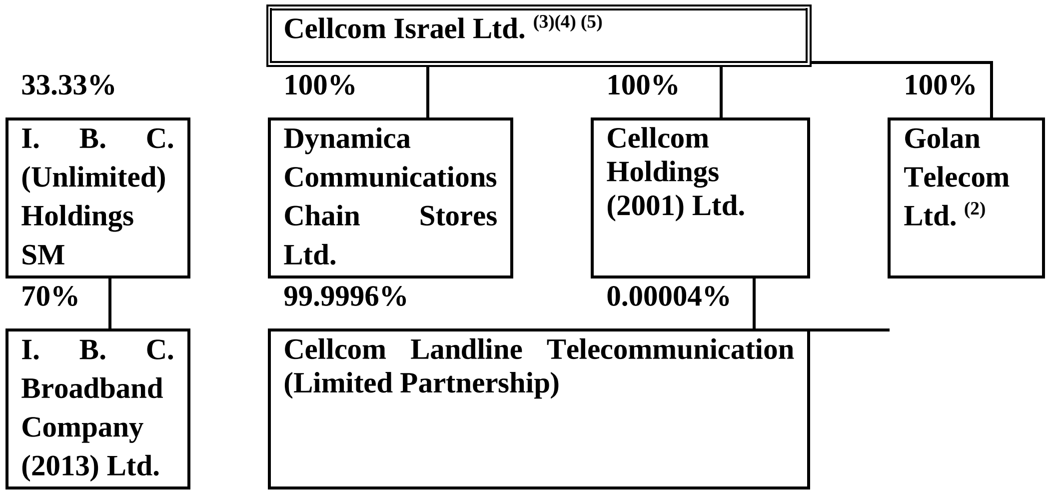
DIC made it clear in its reports, that there is no certainty regarding the completion of the transaction, in light of the preconditions set in the agreement and whose existence is not solely dependent on DIC.

On February 26 2024 the Electricity Authority approved the Transaction.

1.3. **Structure of the Group's Material Holdings**

The following chart shows the structure of the Group's material holdings as of the publication of the report:





(1) Dynamic sells and markets end equipment to private customers (end customers) and to business customers (end customers and points of sale) in Israel, including (a) cellular products, including smart phones, tablets, smart watches and complementary accessories; (b) additional electronic and electrical products such as computers, consoles and gaming accessories, audio, multimedia, gadgets, televisions, drones and vacuum cleaners. The products sold by Dynamica are mainly manufactured by Apple, Samsung and a number of other manufacturers such as Xiaomi, One Plus and more. Apple and Samsung products are marketed and sold through an agreement between Dynamica and the Company (for further

details on the Group's agreements with Samsung and Apple, see 15 below). In addition, Dynamica provides warranty and repair services for end equipment.

(2) Golan markets cellular services as well as international call services through a fully-owned subsidiary on the basis of Group licenses[2]. For further details see 21.4.3(2) below.

(3) The chart does not show the Company's holdings in the general partner of IBC. For details on the Group's holdings in IBC see Section 17.1 below.

(4) The chart does not include the Company's holdings in CMG Network SM ("**the Joint Corporation**") – the joint corporation through which Celcom and Wecom share their radio networks, held at equal shares (50%-50%) by the parties.

(5) The chart does not include the Company's holdings in Cellcom Energy. For details on the founders' agreement for the establishment of Cellcom Energy and its activity, see Section 23.4.(1) below.

2. Areas of Activity

As of the publication of the report, the Group is engaged in the following two areas of activity:

2.1. Cellular Communications Segment

Within the framework of the Cellular Communications Segment, the Group provides a broad variety of cellular communications services in Israel, by virtue of a license granted it by the Ministry of Communications. In addition, the Group provides overseas roaming services to its customers and to customers of foreign operators visiting Israel. As of December 31 2023, the Group provides cellular services to 3,555 million subscribers[3], on an number of networks deployed across the country, which include calls, sending and receiving text messages (SMS, MMS), internet access and transferal of data over the internet and associated services.[4] In addition, the Group sells its customers (mainly through Dynamic) cellular end equipment and warranty and repair services for end equipment. In addition, the group provides construction, operation and maintenance services for the radio network it shares with Wecom. For further details on area of activity see 7below.

2.2. Fixed Line Communications Segment

Within the framework of the Fixed Line Communications Segment, the Group provides internet services, by virtue of a license provided it by the Ministry of Communications and by virtue of it being a licensed provider in accordance with the Communications Law. These services include internet service providers (ISP) as well as infrastructure services

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[2] Until December 2023, Golan operated as a licensed provider and provided cellular services as well as international call services by virtue of its listing on the Registry.

[3] See definition in Section 3.2 of the Board of Directors Report.

[4] To be clear, jo all networks and not all devices support all of the technologies and all of the services provided by the Group. In addition, there are services adapted to business customers.

(broadband services, on the basis of IBC fiber optics; as well as copper infrastructure and Bezeq fiber optics within the framework of the wholesale market), TV services over the internet (Cellcom TV), international fixed line telephone services (international carrier services) and domestic services, (Domestic Provider services) and transmission services to business customers (including international transmission services) and for the communications operators on the basis of the Group's independent infrastructure as well as on the basis of other operator infrastructure. The Group also provides additional services such as IOT solutions, integration and maintenance of information security solutions services, video conference services, server hosting services. In addition, the Group sells land-based end equipment attributed to the linear communications field.

In addition to the activities in question, the Company has activity providing electricity for business and private customers, within the framework of Cellcom Energy (by virtue of a license the Group provided to supply electricity)[5], and in addition it sells and installs electricity infrastructure and smart charging stations for electrical vehicles ((and provides services in connection with these stations), mainly in the private sector. For details on this activity, see 21.13 below.

For further details on area of activity see 8below.

3. <u>Investments in Company Capital and Material Transactions with Its Shares Over the Course of 2022, 2023 and Near the Publication of the Report</u>

3.1. <u>Sale of Company Shares by Company Controlling Shareholder</u>

For details on transactions for the sale of Company shares by the Company's shareholder, see 1.2 below.

3.2. <u>Changes in Holdings of Interested Parties in Company Shares</u>

For details on changes in the holdings of interested parties in Company shares over the course of 2022, 2023 and as of the publication of the report, in stock exchange and off-stock exchange transactions, see the Company's immediate reports.

4. <u>Dividend Distribution</u>

4.1. <u>Dividend Distribution</u>

4.1.1. In 2022, 2023 and as of the publication of the report, the Company did not distribute dividends to its shareholders.

4.1.2. As of December 31 2023 the Company has distributable profits (as defined in Section 302 of the Companies Law) to the sum of 1,469 million NIS.

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[5] This activity is carried out through cooperation between the Company and corporations fully owned by Meshek Energy (Renewable Energy Ltd.), and as of this report is at a level not material to the Company.

4.2. **Dividend Distribution Policy**

The Company has a dividend distribution policy according to which it will set a target of distributing at least 75% of its yearly retained earnings after tax to its shareholders, on a quarterly basis, so long as the distribution of dividends will not negatively impact the Group's cash needs and the plans approved by the Board of Directors, all subject to legal restrictions and contractual restrictions the Company has taken upon itself and/or will take upon itself (as detailed in 4.3 below). In spite of the above, the Company Board of Directors may, at its discretion, not distribute dividends or distribute dividends at amounts other than that noted above.

4.3. **Restrictions on the Distributions of Dividends**

For details on the Company's commitments to financing bodies and the holders of the Company's debentures to meet financial covenants and restrictions on distribution that may impact its ability to distribute dividends, see Section 18.4 below, and see the restrictions on equity within the framework of the MNO license in Section 21.4.1.(3) below.

Part Two: Other Information

5. Financial Information Regarding the Company's Areas of Activity

5.1. The following is monetary data on the Company by areas of activity for the year ending December 31 2023 (in millions of NIS):

	Cellular Communications Segment	Fixed Line Communications Segment	Adjustments to Consolidated*	Consolidated
External sales revenues	2,875	1,523	-	4,398
Revenues from other areas of activity	15	142	(157)	-
Total revenues	2,890	1,665	(157)	4,398
Costs not attributed to the revenues of some other area of activity	2,583	1,482	-	4,065
Costs constituting revenues by another area of activity	142	15	(157)	-
Total costs	2,725	1,497	(157)	4,065
Variable costs**	1,319	566	-	1,885
Fixed costs**	1,406	931	-	2,337
Total costs	2,725	1,497	(157)	4,065
Profit (loss) from activities	165	168	-	333
Adjusted EBITDA	833	439	-	1,272
Total assets	3,739	2,211	670	6,620
Total liabilities	675	402	3,280	4,357

* Adjustments to consolidated deriving from transactions between various areas of activity.

** Variable costs are costs over which the Group has short-term control and which are also influenced by the revenues turnover. Fixed costs are not flexible in the short term and the Group shall bear them even in the case of a drop in income.

5.2. **The following is monetary data on the Company by areas of activity for the year ending December 31 2022 (in millions of NIS):**

	Cellular Communications Segment	Fixed Line Communications Segment	Adjustments to Consolidated*	Consolidated
External sales revenues	2,887	1,413	-	4,300
Revenues from other areas of activity	14	141	(155)	-
Total revenues	2,901	1,554	(155)	4,300
Costs not attributed to the revenues of some other area of activity	2,516	1,426	-	3,942
Costs constituting revenues by another area of activity	141	14	(155)	-
Total costs	2,657	1,440	(155)	3,942
Variable costs**	1,420	641	-	-
Fixed costs**	1,237	799	-	-
Total costs	2,657	1,440	(155)	3,942
Profit (loss) from activities	244	114	-	358
Adjusted EBITDA	768	429	-	1,197
Total assets	3,756	2,151	1,091	6,998
Total liabilities	717	333	3,844	4,894

* Adjustments to consolidated deriving from transactions between various areas of activity.
** Variable costs are costs over which the Group has short-term control and which are also influenced by the revenues turnover. Fixed costs are not flexible in the short term and the Group shall bear them even in the case of a drop in income.

5.3. **The following is monetary data on the Company by areas of activity for the year ending December 31 2021 (in millions of NIS):**

	Cellular Communications Segment	Fixed Line Communications Segment	Adjustments to Consolidated*	Consolidated
External sales revenues	2,769	1,331	-	4,100
Revenues from other areas of activity	13	141	(154)	-
Total revenues	2,782	1,472	(154)	4,100
Costs not attributed to the revenues of some other area of activity	2,506	1,385	-	-
Costs constituting revenues by another area of activity	141	13	(154)	-
Total costs	2,647	1,398	(154)	3,891
Variable costs**	1,419	607	-	-
Fixed costs**	1,228	791	-	-
Total costs	2,647	1,398	(154)	3,891
Profit (loss) from activities	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 deriving from transactions between various areas of activity.
** Variable costs are costs over which the Group has short-term control and which are also influenced by the revenues turnover. Fixed costs are not flexible in the short term and the Group shall bear them even in the case of a drop in income.

5.4. For the Board of Directors' explanations on the Company's monetary data as they appear in the Financial Statements, see the Report of the Board of Directors.

6. General Environment and Impact of External Factors on the Group's Activity

The following are factors in the macroeconomic environment that impact of may impact the Group's activity:

6.1. Regulation and Dependence on Licenses or Permits

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

The Group's activity is subject, among other things, to the regulation of the communications market that includes, among other things, the provisions of the Telegraph Order, the Communications Law and resulting regulations (including the Registry Regulations), and the licenses granted the Group by the Ministry of Communications ("**the Communications Regulation**"). This regulation establishes, among other things, terms and restrictions the Group must meet within the framework of its business activities. The Communications Regulation can be changed, including contrary to the Group's position. A material violation of the Communications Regulation provisions may lead to the cancellation of the licenses or delisting from the Registry. In addition, violation of the provisions of the Regulation, may lead to the cancellation of the licenses and permits and may lead to significant monetary sanctions being imposed on the Group. In addition, the manner and effectiveness of the supervision of the Ministry of Communications on other operators active in the communications market also impacts the Group's activity and competition in the communications market.

The Company's activity is also subject to additional laws, such as the Planning and Construction Laws (in all matters pertaining to establishing base sites and other facilities), the Radiation Law, antitrust law, securities laws, consumer laws, privacy protection law, labor law (including the Collective Agreements Law, 1957) and the decisions of the relevant regulators and courts in each of these areas and more. For further details on restrictions and supervision of the Group's activity, including on the licenses granted the Group, including details on the reform in the Israeli telecommunications services licenses regulation, which transferred some of the elements providing telecommunications services from regulation via license to regulation by listing in the registry, see 21 below.

6.2. Competition

The Group is active in a competitive market in all of its areas of activity. For further details see Section 11 below.

6.3. Technological Changes and Dependence on Technology

The field of communications is a very dynamic and competitive field, characterized by a high rate of technological changes, which require proper preparation and high capital investments in communications infrastructure, in order to satisfy variable customer needs and preserve the competitive status of the players active in it. Accordingly, the Group needs to invest in advanced technologies in order to remain competitive. See Section 26.2.7 below for further details. In addition, activity in the field of technology makes those active in it dependent on communications infrastructure, information systems and complex technological systems, with the absence of independent infrastructure meaning dependence on various infrastructure suppliers. Malfunctions in such technologies may have a negative impact on the Group’s ability to provide services and products to customers, have a negative impact on the Group’s reputation and expose it to lawsuits. For details on the technological changes and technological systems in the field of cellular communications and in the field of linear communications, see 7.1.4 and 8.1.3 below.

For further details on the Group's investment and the Group’s dependence on infrastructure and networks see Sections 12.2 and 26.3.2 below.

6.4. **Environmental Risks**

For details on the possible impact of environmental risks on the Group’s activity, see Section 20 below.

6.5. **Inflation and Interest Rates in the Economy**

For details on the impact of inflation on the domestic and global economy, as well as the impact of changes in interest rates in the economy on the Group’s activity, see Section 1.4 of the Board of Directors Report.

6.6. **Iron Swords War**

For details on the impact of the Iron Swords War on the Group’s activity, se Section 3.1.c of the Board of Directors Report.

Part Three: Description of Group Business by Operating Segment

7. Cellular Communications Segment

In addition to that detailed in Section 2.1 above, the following are trends, events and developments in the Group's macroeconomic environment that have or may have an impact on the field of cellular communications:

7.1. Structure of Area of Activity and Changes in Scope of Activity in the Field

7.1.1. General

The area of activity includes cellular communications service and associated services as well as sale, warranty and repairs for cellular end equipment, as detailed in 7.2 below. Cellular services are provided by MNO – infrastructure owners and MVNO – who are hosted on the MNO infrastructure.

In August 2020 the Group completed its purchase of Golan and strengthened its status as market leader. In recent years, the cellular communications market was characterized by a high level of competition, which has led to the frequent and extensive movement of subscribers between the various cellular operators, which has led to the erosion of the average revenue of the Group for cellular subscribers and harmed the Group's profitability. At the same time, over the course of 2022-2023 a decrease occurred in the movement of subscribers between the various cellular operators and a drop in abandonment rates, alongside an increase in the Group's average income from cellular subscribers (after neutralizing reciprocal linkage fees).[6]

On the other hand, the cellular end equipment market is still characterized by fierce competition between the various suppliers (cellular operators, importers, retail chains, other private shops, online trading sites and so on) selling cellular end equipment, including via private imports. Over the course of the reported period, in light of activity carried out by the Group to focus and expand its activity in the field, the Group managed to preserve its lead in end equipment activity relative to the other cellular operators, while continuing growth and increasing the operating turnover.

7.1.2. Restrictions, Legislation, Standards and Special Constraints Applying to the Field of Activity

For details on regulatory restrictions applicable to the Company, including areas of cellular communications, see Section 21 below.

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[6] For details on the outline for reducing reciprocal connectivity fees, see Section 21.3.1 below.

7.1.3. Developments in the markets of the field of activity or changes in the characteristics of its customers:

The cellular communications market is characterized by low growth rates, due to a saturation in the penetration rate[7] and in mobility between various operators (at decreased rates than in the past). In recent years, cellular communications became a central part of the day-to-day activity of private and business customers. Users are expanding their methods of use and have moved from using communications services mainly for phone calls, to constantly expanding use of communications services, mainly cellular internet use, use of applications, as well as connected end equipment (IOT). The Company believes that this trend will increase, particularly with the expanded deployment of the 5th Generation network and the development of 5th generation-based applications and uses.

7.1.4. Technological Changes that Could Affect the Field of Activity

The cellular communications market is characterized by frequent and significant technological changes, which following which the cellular operators must make ongoing investments in development and in adjustments to advanced technologies. In recent years, there have been two key technological developments that may influence the area of activity as detailed below:

(1) Effective data traffic through upgrading and expanding the 4th Generation and 5th Generation networks –

Non-stop growth in the scope of cellular data traffic, which has been occurring in recent years on cellular and land-based communications networks, has necessitated the upgrading and expansion of the network infrastructure in question and requires the purchase of increasing capacity in the supply of access services to the internet and to the Group's infrastructure. The Group estimates that the growth in data traffic on the one hand, will continue, among other things, due to the developments in content services and high definition TV based on internet communications, while also taking into account increased uses that require fast and efficient data traffic.

In order to meet the increased demand for cellular data traffic and in order to allow increased capacity and faster data transfers, the group is required, among other things, to continue with its investments to upgrade and expand

[7] Penetration rate – the ratio between the total subscribers on the cellular market and the total Israeli population, not including foreign workers and Palestinians, although these are included in the number of subscribers.

the deployment of 4th and 5th Generation networks (including supporting fixed line infrastructure) and their compatibility with the new frequencies allocated in the frequency tenders. In this regard, note that in July 2023, after taking part in a monetary competition process in a tender published by the Ministry of Communications for the offering of 5th Generation frequencies in the 26 GHz range for a 10-year period, the Company received a message from the Tenders Committee according to which, among other things, the Company had won 8 competitive bands with a bandwidth of 100 MHz each (800 MHz in total) at the starting price as set in the tender. Not that (among other things) in light of the continuation of the Iron Swords War and the special situation in the home front, the tender proceedings were placed on hold (and accordingly, the payment date of the licensing fees was postponed).

In July 2023 the Ministry of Communications published a policy paper that outlines the rule for allocating a 26 GHz frequency band (as well as a narrow band in the 2.1 GHz range) for the use of elements who are not cellular operators or domestic operator, for the purpose of operating private networks on a local basis (terrain polygon) for a project. Implementation of the policy will require regulatory adjustments to the communications regulation.

In addition, in July 2023, the Ministry of Communications passed a resolution and the Company's license was amended so as to allow third parties that are not cellular companies ("**Entrepreneurs**") to establish a radio focus infrastructure (cellular sites) and rent them to the cellular companies, so long as such sites are activated and maintained solely by cellular companies, with such use being incremental to the coverage obligations set in the companies' licenses. The Ministry's ruling also stated that in order to establish and rent such a radio infrastructure, the entrepreneurs will be required to receive an appropriate license from the Ministry of Communications and meet the terms and restrictions

For further details on the Group's use of frequencies, the Group winning the 2020 tender and the Ministry of Communications' requirement to change frequencies, see Section 13.5 below.

(2) Use of e-Sim Technology

E-Sim (Embedded Sim) technology, which has existed for a number of years, replaces the need to install a physical sum card on a cellular device and allows digital migration between operators. As of the publication of the report, cellular devices that support an e-SIM only have not yet been launched in Israel (iPhone 14 and iPhone 15 were launched in Israel in a combined solution and in a number of countries abroad they were launched as an e-SIM only. At the same time, over the course of February 2024, an e-SIM service was launched for cellular phones by the major communications companies (including the Company), however, as of the publication of the report, these are the initial stages of launching the service in question to the general public (so that as of this date, e-SIM technology is largely used in Israel in smart watches only). E-SIM technology allows subscribers holding e-SIM supporting cellular devices an alternative to the current method of purchasing local numbers from foreign operators (using the e-SIM technology), and may replace the roaming package from operators only with other external alternatives for Israeli customers travelling abroad. In addition, implementation of the technology among operators in Israel may make it easier to migrate cellular customers to these operators.

The Company estimates that increased use of the e-SIM technology may lead to the erosion of Company revenues from roaming services (for Company subscribers flying outside of Israel). At the same time, increased use of e-SIM technology may also serve as an element that will allow a certain increase in Group revenues, among other things due to the increase in consumer awareness of the option to define a number of telephone lines in each mobile phone device, due to the potential savings in service costs in connection with physical SIM cards (including costs involved in sending the SIM to subscribers), due to the decrease in cancellations of cellular line sales transactions (between the date of the engagement with the customer and the date of the transaction by operating the line purchased) as well as a potential increase in the Company’s penetration rates and the options that will be opened to it in supplying roaming services in Israel (for subscribers outside of Israel entering into Israel).

As of the publication of the report, the Group cannot estimate when and to what degree the technology in question will become widespread among the Israeli public, and when and to what degree it will impact the scope of sales of roaming packages outside of Israel by Israeli communications services (including the Company). Accordingly, the Company cannot estimate the impact this will have (if any) on the market and on the Company’s operating results.

(3) The Company constantly examines the technology on the market and the need to upgrade its existing network technology, in accordance with competition in the field and the economic feasibility of upgrading technologies.

7.1.5. Critical Success Factors in the Area of Activity and Changes Occurring Therein

The Group estimates that the critical success factors in this area of activity are as detailed below:

(1) National deployment of an advance, high-quality cellular network, including the ability to maintain the network at a high level and make significant investments in the cellular infrastructure on an ongoing basis, are for the purpose of optimal coverage across the country and for the ability to offer high capacity for customers and allow technologically advanced services.

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

(3) Broad and varied sales and distribution channels;

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

(5) High-quality, fair and efficient customer services, including the ability to offer technical support and customer services through varied channels, physical, telephone and digital;

(6) A well-known and leading branch;

(7) Varied management of communications services for customers under one roof, and the ability to provide a comprehensive response to customers.

(8) Professional and skilled personnel.

7.1.6. Primary Entry and Exit Barriers

According to the Group's estimates, the main entry barriers to the area of activity are:

(1) The Competition in the Israeli cellular communications market and the saturation in the penetration rate in the industry. For further details see Section Competition in **the Cellular Communications Market**

(2) The need to receive a general license to provide cellular communications services from the Ministry of Communications, while meeting the conditions set in the Communications Regulation and the receipt of the right to use suitable frequencies from the State, which involves significant monetary costs;

(3) The need for extensive financial measures and extensive information to make the significant investments needed in technological infrastructure,

establishing a network and deploying sites across the country, an operations array, an extensive sales, support and array;

(4) Burdensome regulation and supervision in the field of cellular communications compliance with which and with the changes made therein may require material investments. For further details see Section 21.5 below as well as Section 21.2.1.(4) below regarding the 76th Amendment to the Communications Law (Telecommunications and Broadcasts), 1982 which has generated a reform in the regulation of licensing telecom services in Israel, which were transferred in part to the regulation via listing in the Registry (in lieu of a license).

(5) The need to build base sites (also known as cellular antennas) across the country, which involves significant difficulties due to the need to locate and rent spaces for the construction of the base sites and licensing the sites which often encounters resistance from the local authorities in the areas of which the sites are built, and their residents. For further details (including the option of building base sites with exemption from permit) see Section 21.5 below.

Note that most of the entrance barriers described above, do not constitute an entrance barrier for a virtual operator, however one of the primary entrance barriers for virtual operators is engagement in a hosting agreement with a holder of an MNO license (for the use of a cellular network).

The Group estimates that the primary exit barriers from the area of activity are:

(1) The approval of the Minister of Communications to halt providing services, which may be stipulated on the regulation of a continuation of the service given the customers of an operator seeking to exit the field;

(2) The MNO license sets restrictions, among other things, on transferring the shares of corporations holding this license and the transfer or lien of assets used by the Group to uphold the terms of the license (for details see Section 21.4.2 below);

(3) Material investments that required extensive periods of time to repay the investment.

7.1.7. <u>Structure of Competition in the Area of Activity and Changes Occurring Therein</u>

For further details on the structure of competition in the area of activity see Section11.3 below.

7.2. **Products and Services**

As of this date, the group is the largest cellular services provider in Israel based on number of subscribers and estimated market share in accordance with the group's estimates. As of the publication of the report, the Group provides cellular communications services to 3,555 million subscribers in Israel, which constitute a market share estimated at 32.4% of the cellular communications market.

7.2.1. The Group offers its subscribers a broad variety of services in this area of activity, including[8]:

(1) Cellular voice services in Israel as well as associated services such as call waiting, caller ID, voice mail, follow me and conference calls;

(2) Text (SMS) and multimedia (MMS) sending and receipt services.

(3) Internet access and data communications services – internet services.

These services also include 5th Generation packages in which (among other things) extended internet packages are offered.

(4) Roaming services for its subscribers while travelling abroad, as well as roaming services for visitors in Israel, which can make use of the Company's cellular network;

(5) Added value services such as information security services, “Pleasant Wait” service (in which a different waiting sound is heard, as selected by the customer), personnel management applications, management of vehicle fleet and more;

(6) IOT (internet of things solution – advanced solution is in the end to end IOT field (such as “smart city” solutions);

(7) Warranty and repair services for cellular end equipment – in return for a monthly payment that grants the customer with a repair service and/or in return for a one-time payment during repair.

In addition, the Group regularly considers offering additional products and services to its customers and offers cellular subscribers a broad variety of packages and pricing plans.

The Group offers two methods of payment: prepaid and postpaid. Within the framework of postpaid payment, the subscriber provides a means of payment in the configuration of an order to charge a bank account or charge a credit card. Prepaid expenses are generally paid by purchasing physical or virtual “Talkman” cards. Most of the Group’s sales in this area are made through postpaid payments. In accordance with the applicable

[8] See Footnote 4 above.

communications arrangement, the cellular service plans do not include a commitment to purchase the Group’s services for a predefined period, except in connection with agreements with major business bodies. For further details on restrictions and supervision in the field of cellular communications see 21.5 below.

7.2.2. In accordance with the networks sharing agreement with Wecom, the Group provides domestic roaming services to Wecom as well as subcontractor services to the joint corporation. For further details on the sharing agreement see Section Sharing Agreement **with Wecom**

7.2.3. End Equipment

The Group sells over a variety of sales channels, including in physical shops and websites (mainly through the Dynamica chain, which constitutes the Group’s retail arm) a broad variety of cellular phones, associated accessories and additional electronic equipment, such as tablets, mobile computers, consoles and gaming accessories, speakers, earphones and smart watches. The group offers a variety of payment plans for the end equipment in question. The proceeds are paid in a single instalment or in a number of installments, as chosen by the customer. Most of the Group's cellular telephone sales in 2022 and 2023 were from the Samsung and Apple brands (for details on the Group's agreements with Samsung and Apple, see Section **שגיאה! מקור ההפניה לא נמצא.** below).

7.3. **Breakdown of Revenues from Goods and Services**

The following is data on revenue from customers in the field of cellular communications, the rate of which constitutes 10% or more of the Company’s total revenues (as presented in the Company's consolidated Financial Statements) for 2021, 2022 and 2023 (in millions of NIS):[9]

	2023		2022		2021	
	Revenues	**Rate ***	**Revenues**	**Rate ***	**Revenues**	**Rate ***
Cellular Communications Services **	1,871	42.5%	1,879	43.7%	1,775	43.3%
End Equipment	898	20.4%	929	21.6%	915	22.3%

* Rate calculated from the Company's revenues in the Consolidated Financial Statements in each period.

[9] Note that in terms of revenues, as of September 30 2023, the Group is a market leader in the sale of end equipment in the field of cellular communications among cellular operators.

** Due to revenues from Wecom as a result of the sharing agreement. For details see Section 23.1 below.

8. Fixed Line Communications Segment

In addition to that detailed in Section 2.2 above, the following are trends, events and developments in the Group's macroeconomic environment that have or may have an impact on the field of fixed line communications:

8.1. Structure of Area of Area of Activity and Changes in Scope of Activity, Developments in Markets of the Field and Changes in the Characteristics of its Customers

The area of activity includes variety of linear communications services, including internet services (access and infrastructure), OTT television services, domestic fixed line telephone services (domestic operator services) and international services (international carrier services), transmission services offered the Group's business customers and other communications operators (including international transmission services) and various communications solutions, such as IOT solutions, as well as the sale of end equipment in the area of activity, such as IT and communications equipment (servers, routers, switches and more), software and integration of information security products. For details see Section 8.2 below.

Communications operators who own a nationally-deployed fixed line infrastructure, such as Bezeq, provide, as a rule, communications services to their customers through their independent infrastructure, while communications operators who do not own such an independent national infrastructure, like the Group, also make use of the infrastructure of the infrastructure owners to provide their services, including within the framework of the services and rates provided within the framework of the wholesale market. As noted, as a rule, the Group provides linear communications services to its business customers, through an independent infrastructure it owns alongside infrastructure from other operators – mainly Bezeq, which the services to its private customers are provided through IBC infrastructure as well as Bezeq infrastructure (within the framework of the wholesale market).

8.1.1. Restrictions, Legislation, Standards and Special Constraints Applying to the Field of Activity

(1) **The Group's dependence on owners of land-based infrastructure** – the Group’s holding of IBC, along with the IRU agreements of IBC with the Group and with the HOT grout in IBC (see Sections 17.1.4 and 17.2.2 below), allow IBC to significantly increase the deployment of its optic fiber infrastructure and thus reduce the Group’s dependence on other fixed line infrastructure owners. For further details see Section 17.1 below.

(2) **Regulation** – for details on regulatory restrictions applicable to the Company, including areas of fixed line communications, see Section 21 below.

8.1.2. Developments in the markets of the field of activity or changes in the characteristics of its customers:

(1) **Internet**

This market includes internet access services and internet infrastructure. For details see Section 8.2.1(1) below.

The internet market has seen growth in recent years in the uses and scopes of traffic of data transferred over communications networks.

As of the publication of the report, the HOT and Bezeq groups are the only entities in Israel with a national fixed line infrastructure (or near-national). Bezeq's infrastructure is based on the deployment of copper cables alongside fiber infrastructure, while HOT infrastructure is based on cables alongside fiber infrastructure, through its IRU agreement with IBC. Regarding the copper and cable infrastructure, these companies have a universal (or near-universal) deployment obligation[10].

IBC has optic fiber based infrastructure in extended areas, which is mainly used by private customers. Part of it is spread out across the electric infrastructure of the Electric Corporation and some uses the wholesale market (mainly through Bezeq physical infrastructure and some using HOT physical infrastructure).

For further details on the Company's investment in IBC and the IRU agreement for the Groups use of the IBC network, see Section 1.17 below.

The Group has a fiber optic infrastructure laid between Israeli industrial and business centers, which it uses to provide transmission and domestic

[10] For a full picture, note that in September 2022 the Ministry of Communications issued a call for proposals in the matter of principles of a policy for closing the copper networks, in which it presented the advantages of closing the copper networks, the challenges in closing it, the engineering implications and the principles for formulating the policy.

operator services to business customers and communications operators as well as infrastructure between the Group’s communications sites.

Note that partner also has a fiber-optic based infrastructure in select areas.

In December 2022, Bezeq and Partner announced an agreement, according to which Partner had purchased indefeasible rights of use (IRU) for a period of 15 years for 120,000 lines of communications in structures connected to the Bezeq optic fiber infrastructure, with an option to extend to two additional periods of 5 years each. In accordance with Bezeq’s and Partner's reports on the matter, the Ministry of Communications considers this agreement a shelf proposal for anyone interested in it.

The Bezeq Group has its own optic fiber network, which is expected, according to the obligations set in its licenses as well as according to the minister's decision from August 2023 that allowed Bezeq to expand its service deployment areas, reach a deployment level of 84.85% of Israeli households until 2027. Bezeq began operating its fiber optic network (which it had deployed previously) in March 2021.

In February 2023 the Ministry of Communications announced that the deployment obligations of almost 100% of households were completed. In the Ministry’s decision from August 2023 it was noted that as of July 2023, Bezeq completed deployment at over 75% of the households in its service area. In the Ministry's announcement from June 2023, it stated that 83% of the Israeli households had access to optic fiber (note that in February 2023, the Ministry's announcement noted that of the households with access to optic fiber as noted, some 40% were actually optic fiber subscribers).

As of the publication of the report, the Company is dependent on Bezeq’s and IBC’s broadband infrastructure services for the purpose of providing internet services to its private customers. The increased demand from the Company's customers for data capacity increased the Company's dependence on these services.

In 2015 the wholesale market was officially launched in Israel in the field of internet infrastructure and to a degree also in the field of use of certain physical infrastructure by operators who are not infrastructure owners. The wholesale market allowed interest access providers who do not own internet infrastructure or internet access providers who have internet infrastructure without national deployment, among them the Group and Partner (among other things using IBC) compete with Bezeq and HOT (and subsequently – other operators as well) and provide packages of services that include access to the internet and internet infrastructure.

In spite of the fact that the wholesale market applies officially to the HOT Group infrastructure, the realization of the wholesale services over the HOT network has been delayed for various reasons, among other things due to rates that are slightly higher than the retail rates over the Bezeq network. As of the publication of the report, use the Group makes of wholesale services over the HOT network is negligible.

For details on additional developments in the wholesale market see 21.6.2 below.

For further details regarding the prices of wholesale internet infrastructure over the Bezeq network, see 21.6.2 below.

(2) **Television Services**

Until the Group entered the multi-channel television market in December 2014, the multi-channel television services market was controlled by HOT (a declared monopoly in this area) and YES (of the Bezeq Group), which provided television services using cable and satellite technology, respectively[11]. Celcom was the first to present an innovative method of broadcasting television over the internet (OTT), which was a significant milestone in the development of the audiovisual market for the consumption of content over the internet. The Group's OTT service presented innovation in additional parameters including the option of viewing broadcasts over an application (without a converter), viewing a number of fixed and mobile devices at once, continuing viewing between devices, concentrated recording that allowed viewing content broadcast over commercial channels up to one week back ("Catch-Up") and more, alongside Israeli and international content and sports content. Since the Group presented OTT services in Israel, additional players have adopted the solution. In recent years, international suppliers of VOD over the internet have begun entering the market, such as Netflix and Disney, which market their services both directly to consumers and through collaborations with TV service providers. In addition, in June 2022 the Second Authority for Television and Radio Council approved Keshet's request to establish a multi-channel broadcast platform over the internet called Free TV, which

[11] In this regard, note that according to Bezeq's publications, by the beginning of 2026 YES is expected to complete its process of migrating from satellite broadcasts to broadcasts over the internet.

received its public launch in April 2023 (for details see Section 11.4.2.(1) below).

(3) **Terrestrial Telephone (Domestic Provider)**

The Group offers domestic terrestrial telephone services to business customers and terrestrial telephone services using VOB technology to private customers.

(4) **International Calls (International Carrier)**

The international call services market is highly competitive, and the competition is largely based on the operator's ability to offer attractive pricing and services in a package combined with additional services, such as cellular services. In recent years, use of free communications technology and alternatives over the internet (such as VoIP) have reduced the telephony market and in particular the international telephone services and revenues from them. This trend is expected to continue in the future.

The Company's estimates regarding the trend of reductions in the telephony market and in particular in international telephone services and revenues from them as described above, constitute forward-looking information, as defined in the Securities Law. The Company's estimates may not be realized or be realized in part or in a different manner (including in a material manner) than described above. This, among other things, due to factors and/or influences that cannot be estimated in advance, which include continuing and/or expanding the use of new free and alternative communications technologies over the internet.

8.1.3. <u>Technological Changes that Could Affect the Field of Activity</u>

The fixed line communications market, like the cellular communications market, is a dynamic field in light of the fast rate of technological changes and the high level of competition, which require suitable preparations and necessitate investment in advanced technologies in order to remain competitive. In recent years there has been a great deal of growth in fixed line data traffic, which requires that the Group upgrade its network, invest and purchase capacity and higher rates for internet services (access and infrastructure) it offers. Naturally, the move to new technologies and the use of new equipment requires monetary investments and certain risks (connected, among other things, to malfunctions and operating difficulties).

In order to meet the requirements for data traffic over the terrestrial network the Group has invested in upgrading and adapting its communications systems and connectivity with operators in Israel and abroad. In addition, the Company has invested significant resources in independent infrastructure deployment, and subsequently through IBC, in order to find better alternatives to purchasing infrastructure services. In addition, over the course of 2023 IBC began upgrading its network, while moving from GPON technology to XGS-PON technology, which allows (among other things) faster data downloads and uploads[12]. For details on technological changes and dependence on technology as a risk factor in the Group's activity see 26.2.7 below.

8.1.4. <u>Critical Success Factors in the Area of Activity and Changes Occurring Therein</u>

The Group estimates that the critical success factors in this areas of activity are as detailed below:

(1) The ability to offer reliable and stable communications services at competitive prices, while adapting to frequent changes in the terrestrial communications market, with an emphasis on providing a response to the increasing need for broadband and data traffic rates;

(2) Access to an advanced, broadly deployed and high-quality network, including the ability to decrease dependence on external terrestrial infrastructure owners.

(3) The ability to deal with regulatory decisions;

(4) Efficient and fast installation and connecting the infrastructure and associated equipment at the customer's house;

(5) High-quality and efficient customer services, including the ability to offer technical support and customer services through varied channels, physical, telephone and digital;

(6) The ability to offer a large variety of services for homes and businesses;

(7) The ability to make material investments;

(8) Broad and varied sales and distribution channels;

(9) A well-known and leading branch;

(10) Professional and skilled personnel.

8.1.5. <u>Primary Entry and Exit Barriers</u>

(1) According to the Group's estimates, in light of the option of acting as a supplier with no infrastructure, the main entry barriers to the area of activity are: At the same time, in order to operate in the area of activity, financial measures are needed (for the purpose of investments needed in connection with customer acquisition, installation at customer homes and required end equipment), and extensive knowledge for the purpose of

[12] PON is an access network architecture that is capable of providing broadband two-way communications to a large number of users, over shared passive optic infrastructure.

managing the operating array, the sales array, support and service. In addition, in order to operate as a supplier owning infrastructure in the area of activity, there need to be very high capital investments in infrastructure both for establishment and for maintenance, upgrading and ongoing operation.

In February 2022 the Ministry of Communications decided to allow operators operating under a special license to provide broadband infrastructure services (with these special licenses, they have been converted into licensed providers) to purchase the use of passive broadband infrastructure from domestic operators in accordance with the terms of the service portfolio in this regard and this in incentivization areas only (subsequently, in March 2023, a complementary decision was published that expands the service in question to Bezeq deployment areas, and which restricts online access to some of the authorize suppliers to information on this deployment). Over the course of July 2022 the Minister of Communications decided upon a reduced rate for the use of Bezeq passive infrastructure existing in the incentivization areas and in the area beyond the incentivization area. For details on the incentivization areas see Section 21.6.1 below for details.

Note that as of the publication of this report, the provision of television services over the internet does not require a license, but a need exists for significant financial resources, including the need to engage in agreements to purchase contents and technological infrastructure. For further details on the Communications Law Memorandum (Broadcasts), 2023, see Section 21.6.3 below.

(2) The Group estimates that the primary exit barrier from the area of activity, with the exception in the matter of providing television services over the internet, is the approval of the Minister of Communications to cease providing services, which may be stipulated on the regulation of a continuation of the service given the customers of an operator seeking to exit the field;

(3) The communications regulation sets restrictions, among other things, on transferring shares in license holders and transferring or pledging used to uphold the terms of the license.

8.1.6. Structure of Competition in the Area of Activity and Changes Occurring Therein

For further details on the structure of competition in the area of activity see Section11.4 below.

8.2. **Products and Services**

Within the field of terrestrial communications, the Group provides internet services that include internet access (ISP) as well as infrastructure services (broadband services, on the basis of IBC fiber optics; as well as copper infrastructure and Bezeq fiber optics within the framework of the wholesale market; and IBC optic fiber), TV services over the internet (Cellcom TV), international fixed line telephone services (international carrier services) and domestic services, (Domestic Provider services) and transmission services to business customers and for communications operators on the basis of the Group's independent infrastructure, which is mainly deployed between the industrial zones and business compounds, as well as on the basis of third party infrastructure (mainly Bezeq[13]). The fixed line communications services are provided by virtue of a license or permit granted the Group from the Ministry of Communications (with the exception of OTT services that do not require a license). The Group also provides additional services such as IOT solutions, conference call services, server hosting and backup services, alongside comprehensive communications services (for business customers). In addition, the Group sells land-based end equipment attributed to the linear communications field such as IT and communications equipment (servers, routers, switches and more), software and integration of information security products and services, including maintenance for all of these. In addition, the Company has activity that provides electricity for business and private customers (within the framework of Cellcom Energy), and in addition it sells and installs electricity infrastructure and smart charging stations for electrical vehicles (and provides services in connection with these stations), mainly in the private sector. For details on the electrical supply activity, see Section 21.13 below.

The internet infrastructure services the Group provides private customers is based on Bezeq copper wholesale market infrastructure as well as fiber infrastructure, which is largely based on the IBC fiber optic infrastructure, and the remainder on the Bezeq wholesale infrastructure. Note that taking into account the Company's holdings in IBC as well as the Company's IRU agreement with IBC (for details see Section 17.1 below), the Company is working to gradually transfer as many as possible of its customers to IBC infrastructure (in lieu of Bezeq infrastructure).

[13] Alongside the use of Bezeq infrastructure as noted, the Company also uses HOT infrastructure, at a negligible level.

The Group offers its customers packages of the services in question, which include internet (access and infrastructure) and television services.

In accordance with the regulation in the industry, the service plans do not include a commitment to purchase the Group's services for a predefined period, except in connection with agreements with major business bodies. For further details on restrictions and supervision in the field of terrestrial communications see 21.6 below.

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

8.2.1. <u>The following is reference to the primary products and services within the framework of the area of activity:</u>

(1) **Internet (Access and Infrastructure)**

The Group is a key supplier of internet services. The infrastructure supplier is responsible for connecting the customer from the "first socket" at the customer's home to the infrastructure. The internet access services provider is responsible for providing access to the internet to the customer, from the infrastructure supplier's infrastructure, over their network, to the local and global internet.

The Group provides internet services, including supplying and supporting end equipment, in a number of ways:

a. Providing internet access services (ISP) without infrastructure services. Such sales in recent years have been made as part of a reverse bundle (infrastructure providers Bezeq and HOT marketed their infrastructure services along with the Group's internet access service). In recent years, most activity has focused on access services along with internet services, and thus separate ISP sales have dropped significantly. Over the course of 2022 this method of sale was halted in light of the Ministry of Communications' decision to cancel the separation of broadband infrastructure services and internet service providers (ISP). Within the framework of this decision Bezeq and HOT were allowed to provide internet access services along with infrastructure services (for further details see Section 11.1.2 below).

b. The Group provides internet services on the basis of Bezeq Group copper infrastructure (on the basis of the wholesale market) as well as over the IBC and Bezeq optic fiber network on the basis of the wholesale market. Note that over the course of 2022, following the

Ministry of Communications' decision to cancel the policy and the existing separation between broadband infrastructure services and internet access services, which required that customers interested in connecting to the internet to purchase two complementary services for subscribers (business and private) in a private service configuration only, Cellcom offers new customers and internet package that includes both access and infrastructure.

In addition, the Group offers its internet subscribers added value services, which also include information security services, server hosting and backup services (for business customers) and comprehensive communications solutions (for business customers).

(2) **OTT Multi-Channel Television Services**

Starting December 2014, the Group has offered private customers multi-channel television services over the internet (OTT service) branded as "Cellcom TV". The service offers a package that includes linear channel broadcasts, additional commercial channels and a VOD library. In addition, customers can watch paid movies upon demand (TVOPD), join additional channels for additional pay (such as sports channels, channels in various languages and more) or join FAST channels containing commercials from time to time. The television service also includes other advanced services such as cloud recording and the catch up feature, which allows users to view content broadcast on service channels up to one week back (in accordance with agreements with holders of rights to the contents).

In December 2022, the Cable and Satellite Broadcasts Counsel approved the Company's listing in the Content Suppliers Registry in accordance with the Broadcast Distribution Using Digital Broadcast Stations Law, 2012, in all matters pertaining to the Cellcom TV service[14].

(3) **International Carrier Services**

The Group is one of the key players in the Israeli international carrier market. The primary service in this market is incoming and outgoing telephone calls with significant and broad global coverage. The Group mainly provides this service to post-paying customers but also to pre-

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[14] A content provider recorded in the registry in question is entitled to receive certification and a license to broadcast the contents of a body broadcasting over the internet.

paying customers, mainly through the sale of dialing cards. Most of the customers paying in advance are foreign workers residing in Israel.

In addition, the Group provides hubbing services to international operators who are not Israeli operators, who bridge between two international operators who are not Israelis. The Group provides these services when there is no direct connection between the two operators in question or when the pricing differences in the various locations make the bridging services feasible.

(4) **Domestic Terrestrial Telephone Services**

The Group offers business customers advanced telephone services that include calls and data transfers and a cloud switchboard service. The Group also offers private customers basic terrestrial telephone services using VOB technology. Terretrialk telephone services allow end users to make telephone calls to other end users using a terrestrial phone, cellular phone or computer, inside or outside Israel.

(5) **Transmission Services**

The Group provides its business customers and communications operators transmission and data communications services, from the north of the country to its southern border (on the basis of the Group's independent infrastructure as well as through other suppliers), internet access services as well as added value services such as information security services and IPVPN (private network) services.

As part of the capabilities of the Cellcom Group, through agreements with undersea cable suppliers, international services are also provided, such as internet and data communications services according to its customers' needs.

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

IOT technology allows connection between different physical installations and the internet. The Group, along with strategic partners, offers IOT solutions, mainly to business customers, based on a variety of communications solutions that include fixed line and cellular communications, command, control and management systems, including "smart city" solutions.

(7) **Information and Communications Security Solutions**

The Group provides its business customers with hosting solutions on server farms alongside virtual cloud hosting solutions, including added value service (such as monitoring and control), information security services, and IT solutions (such as system networking, cyber & information security). The Group specializes in end to end projects and accompanies its customers from the characterization stage, through installation and implementing solutions, to accompaniment, maintenance and ongoing support. In addition, the Group is active in the sale of associated equipment and maintenance and warranty services.

(8) **Electricity Supply and Charging Stations**

In addition to the Company's activities in the area of activity as detailed above, the Company has activity at non-material levels, in its initial stages, in which it provides electricity for business and private customers (by virtue of a license the Group provided to supply electricity)[15], and in addition it sells and installs electricity infrastructure and smart charging stations for electrical vehicles (and provides services in connection with these stations), mainly in the private sector. For further details see 21.13 below.

8.3. **<u>Breakdown of Revenues from Goods and Services</u>**

The following is data on revenue from customers in the field of terrestrial communications, the rate of which constitutes 10% or more of the Group's total revenues (as presented in the Company's consolidated Financial Statements) for 2021, 2022 and 2023 (in millions of NIS):

	2023		**2022**		**2021**	
	Revenues	**Rate***	**Revenues**	**Rate***	**Revenues**	**Rate***
Revenues from packages (such as internet, television and domestic provider)**	966	22.0%	927	21.6%	878	21.4%

* Rate calculated from the Company's revenues in the Consolidated Financial Statements in each period.

**The composition of the services included in the package may change in accordance with marketing and competitive needs.

15 This activity is carried in collaboration by the Company and Meshek Energy (Renewable Energy Ltd.).

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

9. Costumers

The following is data on the breakdown of the Group's revenue from private and business customers[16]:

Type of Customer	2023		2022		2021	
	Total revenues (millions of NIS)	Rate of total revenues	Total revenues (millions of NIS)	Rate of total revenues	Total revenues (millions of NIS)	Rate of total revenues
Private Customers	2,836	64.5%	2,947	68.5%	2,835	69.1%
Business Customers	1,143	26.0%	1,110	25.8%	1,009	24.6%
Other	419	9.5%	243	5.6%	256	6.2%
Total	4,398	100%	4,300	100%	4,100	100%

As of the publication of the report, the Group is not dependent on any specific customer the loss of whom will have a material impact on its activity or on any of its areas of activity.

10. Marketing and Distribution

10.1. Sales and Customer Service

10.1.1. The Group is consolidating its customer service and sales services, in order to maximize the Group's opportunities, alongside maximum efficiency and high-quality customer service.

The Group's customer service section is the central channel for preserving long-term relationships with Group customers, while focusing on customer loyalty nurturing efforts in providing high-quality service. In addition, the Group allows its customers to join its services conveniently (in a frontal manner over the telephone and self-service digital means).

The Group offers communications services and complementary services, equipment and complementary services using a variety of sales measures, in order to attract new customers and nurture the loyalty of existing customers.

The Group operates both through independent marketers and through employees employed by it. All Company representatives (both internal and independent) operating in direct interface with customers, undergo intensive training at the start of their employment, as well as over the course of their employment, in order to ensure high-quality service.

[16] Including revenue from Wecom. For further details see Section 23.1 below as well as Note 30(d) to the Financial Statements.

The Group conducts initiated quality tests on a regular basis, to ensure the quality of service and identify areas for improvement, and works on an ongoing basis to implement measures of retaining customers and reducing the customer abandonment rate. As such, the Company is working to establish a customers' club that will allow the proper utilization of the large number of Company customers, in terms of customer retention and increasing brand loyalty, alongside consumer, marketing and other aspects. In addition, it is possible that the customer club in question will approach the Company's customers and additional potential customers with various value offers.

10.1.2. The Group's sales and customer services activities mainly take place on the following channels:

(1) **Physical Sales Points**

The Group distributes its products and services over thousands of physical sales points across the country, most of which operated by external marketers and some operated directly and interpedently by the Group.

As of December 31 2023, the Group operated 70 service and sales points independently (of which 50 were Dynamica stations) across the country. As a rule, the sale and access points are located in central locations or in places with high volumes of customer traffic (prime locations), allowing easy and convenient access to the Group's customers and potential customers. Most of the service and sales points offer the full array of the Group's products and services and offers telephone repair services (and some of them offer additional equipment), or serve as a handover location for depositing them for repairs and receiving them after they've been fixed (at the same center or via courier to the customer's home), while the repair services themselves take place in the Group's frontal branches or in a central laboratory[17]. In addition, the Group offers repair services to the customer's home, which allows repairs to be ordered for cellular devices in a simple and convenient manner by having technicians arrive at the customer's homes.

In addition, within the framework of the Group's efforts to expand in certain sectors in order to expand the Group's sales potential and contact points with the Group's customers and potential customers, the Group engages with distributors with proven expertise in those sectors.

[17] In this regard note that the Group operates a few tens of technicians – as subcontractors across the country.

(2) **Call Centers**

The call centers operated by the Group focus on providing services to private and business customers on financial subjects, services, overseas packages, technical support for cellular, terrestrial and TV products and telephone sales to existing and potential customers. The Group’s sales representatives offer customers a broad variety of goods and services, both proactively and in response to their requests. The Group’s call center service (for private customers) is divided into secondary centers (for example: general services; technical services; billing; sales, collection and so on). The Group examines the effectiveness of service on a regular basis, and also operate a multi-use call center that provides all services.

(3) **Business Customers**

In the Company's areas of activity, a designated team maintains regular contact with the Group's large and medium business customers. In addition, the Group provides a telephone service and sales center for small and medium business customers, a personal service centers for large and medium business customers and a support center for terrestrial communications customers. In certain cases, very large business customers are provided services at the customer's premises. The Group’s expertise in the various fields of communications allows it to provide full treatment to the needs of its business customers, including personally adapted solutions, as needed. Note that the process of selling to major business customers or to government and local authorities sometimes involves the Group taking part in a tender process.

(4) **Self Service and Online Sales**

The Group offers its customers an option to purchase products and services and receive information, including over the Group’s website. In addition, the Group provides its existing and potential customers various self-service channels, such as interactive vocal response (IVR) services, a website and chat over WhatsApp and the Group's application. The self-service channels allow Group customers, among other things, investigate details and purchase end equipment, acquire services such as foreign packages, track use of data, receive monthly digital invoices, self-service training, chats with service representatives and more. The Group invests resources in directing its customers to the self-service channels.

(5) **Technician Services**

The customer service for the Cellcom TV service and the Group's internet infrastructure is provided by technicians (employed by the Company as well as through outside contractors) providing services at the customers' homes.

In addition, the Group's business customers are provided services via professional elements (from Company employees and through outside suppliers) in information security solutions, infrastructure services, communications and other areas.

(6) **Providing Services to People with Disabilities**

The Group invests efforts to adapt its services to people with disabilities, as required by law. Alongside making websites accessible, the Group provides customers with disabilities with comfortable access to the physical sales sites and adapted services including text to speech service and chat support service. The Group trains the customer representatives to provide accessible service to all of its customers.

10.2. **<u>Marketing</u>**

The Group's marketing strategy emphasizes the fact that the Group is a leading, fair and entrepreneur communications group, which provides a large amount of value to customers for their money and is capable of providing a broad solution for all communications needs, through packages and a broad array of services. As the Group sees it, providing a package of services strengthens customer loyalty and increases satisfaction.

The Group works to provide fair and high-quality service to its customers.

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

The Group leverages interactions with its customers to provide the requested service, sell products and services in accordance with customers' needs, market trends and profitability considerations. This in mainly through an advanced customer relations management (CRM) system, to increase customer satisfaction and reinforce customer loyalty.

As of the publication of the report, the Group has no dependence on a specific marketing channel the loss of which will have a material negative impact on its area of activity or which will cause a material added cost to the Group as a result of the need to replace it.

11. Competition

The Israeli communications market is a highly competitive market in most of its areas. For details on the level of competition in the field for cellular and terrestrial communications see Sections 7.1 and 8.1 above, respectively.

The main competitive elements in the communications market are the services included in the package of services offered customers, the perceived price of services and equipment, the perception of the brand, the perception of quality of the network and customer service level. Thus also the variety of cellular devices and additional end equipment, the need to adapt them to the customers' needs and the variety and quality of television contents, influence the increased level of competition in this market.

11.1. Communications Groups and Structural Separation

11.1.1. Competition in the Israeli communications market has been characterized in recent years by competition between communications groups, which are active concurrently in a number of operating segments in the market. Note that the Group's areas of activity also feature competitors not belonging to any communications groups. As of the publication of the report, there are four communications groups active in Israel – the Cellcom Group, the Bezeq Group, the HOT Group and the Partner Group.

11.1.2. As the Bezeq and HOT Groups are monopolies, each in their core businesses – the Bezeq Group in the fixed line telephone market and in the internet infrastructure market and the HOT Group in the multi-channel television market, they have certain structural separation obligations, and accordingly they have various restrictions regarding the sale of communications packages. The restrictions applicable to the Bezeq Group include, among other things, demands to separate the managements of the Bezeq Group companies, as well as separation in the business, monetary and marketing systems, in assets and in employees, prohibition on transferring information between Bezeq and a subsidiary (subject to exceptions), the requirement that Bezeq offer some of the services included in the service package separately, under the same terms as the package, and allow its competitors to offer their services within the framework of service packages under the same terms (if the packages include internet access services, internet-based terrestrial calls or overseas calls).

The Bezeq Group has received waivers for its structural separation that allow it to offer packages along with its subsidiaries, subject to a number of terms. In addition, Bezeq subsidiaries were permitted to sell and market each other's services, including within the framework of packages of their services. While HOT also has requirements of structural separation between the multi-channel television services, the internet access services, cellular services and land-based telephone services, HOT has been allowed to offer packages of land-based telephone services, multi-channel TV services and internet services. In addition, HOT and HOT Mobile may sell and market each other's service and exchange information.

Over the course of 2018, Bezeq partially served the activity of its subsidiary and thus reinforced its ability to compete with the land-line services offered by the Group.

Regarding the HOT Group - by virtue of various reliefs granted it by the Ministry of Communications in recent years, as a rule, it is able to market the services of HOT and its subsidiaries to customers with no material restrictions. In addition, the HOT Group is entitled to market a "shared services basket": that includes, in addition to home internet and broadcasts, also cellular services (Quatro) and international carrier services. In accordance with the Ministry of Communications' decision in this matter, the HOT Group must receive the advance approval of the Ministry of Communications for each basket of services and regarding a basket of service offered by some of the companies in the HOT Group, services of competitors who are not from the HOT Group will need to be offered.

In June 2021, the Ministry of Communications decided to cancel the existing separation policy between broadband infrastructure services and internet access services and ruled that Bezeq and HOT would be allowed to provide internet access services themselves along with infrastructure services. Starting April 2022 regarding Bezeq and from August 2022 regarding HOT, they were allowed to provide internet access services along with infrastructure services for new customers, while being forbidden from providing separate infrastructure services for subscribers in a new private service.

Accordingly, over the course of the fourth quarter of 2022, YES began marketing combined television and internet packages (based on Bezeq infrastructure) to its customers.

11.2. **<u>The Group's Response to Competition in the Communications Market and Factors Impacting its Competitive Status</u>**

11.2.1. The Group estimates that its ability to successfully deal with competition in the communications market depends, in part, on constantly taking care and striving to provide high-quality service to its customers as well as its ability to anticipate and respond to trends and events impacting the market, including the presentation of new services and technologies, changes in consumer preferences, demographic trends, economic conditions, competitor pricing strategies and changes in legal and regulatory environments.

In order to face competition in the communications market, the Group implements a number of steps and strategies that include, among other things: (1) realization of opportunities that maximize its advantages as communications group, while providing television and internet services on the basis of the wholesale market and fiber optic infrastructure through IBC; (2) focusing on offering packages of services such as packages that combine internet (on the basis of copper or fiber infrastructure) and television, along with marketing high quality and advanced complementary end equipment, which increase customer retention and increase the scope of their purchases from the Group; (3) investment in and reinforcement of the strength of the Company's brand as a brand that places the customer in the center; (4) investment and reinforcement of the Company's brands, including Dynamica and Golan; (5) engagement in a network sharing and hosting agreement with Wecom that allows a more effective costs structure for networks, their activation and investments in them; (6) investment in IBC, sale of the Group's independent fiber optic network in residential areas to IBC and engaging in IRU agreement with IBC, which reduce costs for the purchase of fiber optics by the Group (compared to the purchase costs that currently exist from Bezeq) along with its dependence on Bezeq, engagement with HOT in investment agreements in IBC in order to significantly expand the deployment of IBC fiber optics at an accelerated rate and turning IBC into a broad alternative to Bezeq; (7) investment in the Group’s networks with the aim of ensuring the supply of cellular services and high-quality and advanced cellular and fixed line services, including 5th generation and resulting advanced services; (8) increasing service and sales activities over digital channels, to increase customer satisfaction and save costs; and (9) increase the awareness of the potential customer base, by expanding the variety of products and developing tangential and other areas of activity. As such, the Company believes that its activity in the field for electricity supply, via Cellcom Energy (as detailed in Section 23.4 above) may deepen awareness and increase exposure to all of the products and services offered by the Group.

11.2.2. The Group estimates that among the negative elements that influence or may influence its competitive status, include the following factors: (1) the Group’s debt, which decreases the free capital available to finance and develop its business, which may reduce the flexibility of its response to changes in the market and in the economy and imposes high financing costs on it, which may impact its ability to make the necessary investments in the Group's networks and in its business in general (for details regarding the Company's debt, see Note 18 to the Financial Statements); (2) as applicable – regulation that burdens the television over internet (OTT) services offered by the Group to its customers (for details on the memorandum of the Comm (Broadcasts), 2023, see Section 21.6.3 below); (3) cancellation or granting additional reliefs in the structural separation obligation at Bezeq and/or HOT; (4) the supply of internet infrastructure services over optic fibers by HOT and/or Bezeq and/or Partner (including by virtue of an IRU agreement between Partner and Bezeq, for details see Section 8.1.2.(1) above); (5) malfunctions and/or cyberattacks that harm the supply of communications services by the Company and its image; (6) the supply of communications services by the State of Israel or the ability given bodies to provide communications services themselves and/or the allocation of frequencies (if any) to bodies that are not cellular companies, in favor of supplying local cellular services[18]; (7) short and medium-term consequences for the Group deriving from the cancellation of alteration of the sharing agreement with Wecom; (8) a decrease in the scope of roaming services marketed by the Group, including as a result of the increased use of e-SIM technology and the entrance of competitors (for details see Section 7.1.4.(2) above); (9) expansion of the activity of the Free TV platform in the Israeli multi-channel television market, which began operating in April 2023, which may increase the existing level of competition in the market (for details see Section 11.4.2. below); and (10) decreasing entrance barriers to the communications market and decreasing regulation on business and technological development (for further details see Section 21.2.1 below).

11.3. **<u>Competition in the Cellular Communications Market</u>**

There is strong competition in all aspects of the Israeli cellular communications market, with a penetration rate of 117% representing 10.9 million cellular users as of December 31 2023, and an average abandonment rate of 27% over the course of 2023. The abandonment rate in the Group in 2022 and 2021 was 28.9% and 31%, respectively.

As of the publication of the report, the Group is active alongside four cellular communications operators owning infrastructure (mobile network owners – MNO): Partner, Pelephone, HOT Mobile and Wecom, alongside a number of virtual operators

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[18] In this regard note that as detailed in Section 7.4.1.(1) above, in July 2023 the Ministry of Communications published a policy paper that outlines the rule for allocating a 26 GHz frequency band (as well as a narrow band in the 2.1 GHz range) for the use of elements who are not cellular operators or domestic operator, for the purpose of operating private networks on a local basis (terrain polygon) for a project.

(MVNO), the most prominent of which are Rami Levi Marketing Hashikma Communications Ltd. and Azi Communications Ltd.

According to the Group's estimates, the subscriber market shares of the various cellular operators as of December 31 2023, are: The Group 32.4%, Partner 24.2%, Pelephone 23.9%, HOT Mobile 14.6%, Wecom 2.7% and the virtual operators together at 2.3%[19].

Along with the increased awareness and increased use of e-SIM technology (if any), it is possible that marketing activity in Israel by international companies alongside Israeli companies will increase, for the sale of communications packages intended for the general public (and including roaming packages) for use outside of Israel. In addition, and concurrently, it is possible that the competition of communications companies will increase in connection with the supply of roaming services in Israel (for subscribers outside of Israeli entering into Israel).

In the end equipment market, the Group is in competition with a large number of suppliers, including cellular operators, importers, retail chains, other private shops, online trading sites and so on, selling cellular end equipment, including via private imports. The Group predicts that this trend of competition will continue. The Group estimates that it has the largest end equipment activity among the cellular operators, and is considered the mobile network with the largest sales activity outside of Israel[20].

11.4. **<u>Competition in the Fixed Line Communications Market</u>**

Activity in the field of fixed line communications includes activities in a number of secondary areas, mainly transmission and internet services (infrastructure and access), local and international telephone services as well as television services. Implementation of the wholesale market allows the entrance of additional operators who are not infrastructure owners into additional secondary areas and the expansion of competition to all activities and increasing the offering of packages of services from a number of areas to customers. There is extensive competition in this area of activity, particular in the internet and television services provided by the Group, as will be detailed below.

11.4.1. <u>Internet Services (Access and Infrastructure)</u>

(1) The HOT and Bezeq groups are the only entities in Israel with a national fixed line infrastructure (or near-national). These groups are the primary internet infrastructure providers for the Israeli private sector and they also provide internet infrastructure services to operators who do not own infrastructure within the framework of the wholesale market. According to

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19 This estimate is based on reports published for the public by other operators and on the Company's estimates regarding operators who do not publish reports for the public.

20 In terms of revenues, as of September 30 2023, the Group is a market leader in the sale of end equipment in the field of cellular communications.

Bezeq's reports, as of September 30 2023, Bezeq provides internet infrastructure services (over copper and fibers) to 1 million households and has deployed fiber infrastructure for 1.9 million households. The Company does not have the ability to assess HOT's market share in the field of internet services.

IBC offers wholesale internet infrastructure services over optic fibers to operators, including the Group, HOT and Partner. As of December 31 2023, IBC has deployed optic fiber infrastructure to 1.5 million households, and it intends to continue expanding the deployment of infrastructure to 2 million households.

In addition, Partner offers internet infrastructure service to the private sector on its own independent fiber optic network deployed in selected residential areas (according to Partner's reports, as of September 30 2023, Partner has deployed optic fiber to 1.02 million households). For details on an IRU agreement signed between Partner and Bezeq, see Section 8.1.2.(1) above.

(2) Internet access providers that do not own a nationally deployed infrastructure, or those that do not own an internet infrastructure at all[21], rely on the internet infrastructure of Bezeq, HOT and IBC (for further details see Section 17.1 below), to provide infrastructure service to their customers. Inasmuch as IBC becomes a nationally deployed alternative, this is expected to have a positive impact on the Group's competitive status in the field of fixed line communications, by an additional reduction of the Group's dependence on Bezeq and a decrease in its costs.

(3) In 2022 and 2023 the Group continued to focus on recruiting internet customers on fiber infrastructure (IBC and Bezeq), unlike on copper infrastructure. In December 2022 the Ministry of Communications published the demand forecast indices for data capacity on the Bezeq network, used to determine wholesale market rates on the copper infrastructure. These indices led to an increase in wholesale market rates in the copper infrastructure for 2023[22]. In addition, the Ministry published an update on wholesale market rates in a fiber infrastructure over the Bezeq network that increased relative to 2022, amortized by Bezeq within the

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[21] As of the report date, Israel has a number of internet access providers, most of whom do not have a significant market share.

[22] Note that in the hearing published by the Ministry of Communications in December 2023, it was noted that no more use would be made of the model that weighs (among other things) the demand forecast indices as noted, to determine the wholesale market rates for 2024.

framework of understandings achieved between it and the Ministry of Transportation in the matter of the approval of its IRU agreement with Partner (for details on this agreement see Section 81.2..(1) above). For details on the Ministry of Communications' resolution from March 2023 on determining a format for examining the limits in margins in the wholesale market, see 21.6.2 below.

Offering the internet infrastructure services over optic fiber by Bezeq, partner and HOT increases competition between them, but also increases public awareness of the service and leads to the diversion of sales to the fiber optic infrastructure. Bezeq began marketing its fiber optic service to its customers starting March 2021 and starting July 2021, this service is also sold within the framework of the wholesale market. HOT began marketing the service (on IBC infrastructure) in April 2021. For details on HOT's investment in IBC see Section 17.2 below.

For the Group's assessment of the impact of halting the split between access to internet infrastructure, on competition in this field, see 11.1 above.

(4) Among business customers, Bezeq has the largest market share in the supply of transmissions, and its leading status has a material impact on competition in this market share, while both Partner and HOT are active alongside the Company.

(5) As of December 31 2023, the Group provides internet infrastructure services to 350,000 customers (of whom 260,000 customers are on optic fibers). Subscribers connected to fibers constitute a total of 74% of the Group's internet infrastructure subscribers. The Group estimates that its market share in this market is 13%.

(6) As of the publication of the report, international internet access is provided by three undersea cables provided by Sparkle Telecom Italy, Tamares Telecom Ltd. and Bezeq International. For further details see Section 15.2.3 below.

11.4.2. Multi-Channel Television Services

(1) Until the Group entered the multi-channel television market in December 2014, the multi-channel television services market was controlled by HOT (a declared monopoly in this area) and YES (of the Bezeq Group).

The Group offers multi-channel television services over the internet (OTT service). In addition, the Group has engagements with Amazon Prime and Netflix (international VOD content providers on an internet basis) allowing direct access to applications by a designated button on the converter offered by the Group. As at December 31 2023, the Group offers the television service to 263,000 customers. The Group estimates that its market share in this area is 14%. In addition, Partner markets an OTT solution that includes the Netflix app (including billing on the monthly bill) as well as the Amazon Prime service. HOT and YES each market a reduced-price OTT brand called Next TV and Sting TV, respectively. In addition, as part of the shift from satellite broadcasts to OTT technology, YES has launched an OTT brand called YES+. Since 2022 yes has offered Netflix and Disney (an additional internet-based VOD content provider) on its OTT service (including billing in its monthly bill). The service offered by the HOT Group also includes the Netflix app.

Note that Netflix, Amazon Prime and Disney provide their services to viewers in Israel, as a complementary service for existing content on multi-channel TV platforms.

In September 2021, the Antitrust Commissioner decided to grant an exemption from approval of a binding arrangement for the establishment of a multi-channel broadcasting platform over the internet in collaboration with Keshet Broadcasts Ltd. (“Keshet”) and the RGE Group Ltd. (“RGE”), two of the Group's primary content providers for its television services (for further details see Section 15.2.5 below). In addition, the purchase of 24.9% of RGE’s share by Keshet was approved. The arrangement was approved for a period of four years at the end of which a reexamination would be made on the renewal of the exemption for an additional period and Keshet’s option of continuing to hold RGE shares. Subsequently, in June 2022 the Second Authority for Television and Radio Council approved Keshet's request in connection with the venture in question, under certain restrictions, for a limited period until September 2025, at the conclusion of which a reexamination would take place of the request, the state of the market and the interest of the Israeli public, or until legislation is passed on the subject, whichever comes first. Over the course of April 2023, the venture began operating under the name of “FreeTV”. The entrance of the new platform in question is expected to increase the level of competition in the market. At this stage, the entrance of the new platform has not had a major impact on the Group's results. At the same time, it's possible that the deepening of its activity and the establishment of the new platform (including inasmuch as it is offered as a service combined with the internet) will have an impact on the Group’s operating results and/or on the business relationship between it and its content providers as noted above.

(2) The Group estimates that the competition will continue in the future and may include the entrance of international players, as well as additional Israeli players.

11.4.3. International Call Services

The international call services market has changed greatly in the past few years. Use of free and alternative communications technologies such as VOIP and WhatsApp have led to a decrease in the telephone services market and in particular in revenues from international telephone services which are expected, according to the Group's estimates, to continue into the future.

The Group is one of the primary providers of international call services in Israel, with the Groups primary competitors being Bezeq and Partner. There are also additional competitors like XFONE 018 Ltd. and HOT.

11.4.4. Terrestrial Telephone Services

The terrestrial telephone market was controlled for many years by the Bezeq Group, a monopoly in the terrestrial telephone market, and by the HOT Group. Bezeq held, according to Ministry of Communications publications, as of March 25 2021, 72.9% of reported terrestrial telephone service revenues in Israel (and a larger market share among business customers). Additional suppliers in the domestic terrestrial telephone services are the Group and Partner.

The Group offers terrestrial telephone services to business customers and terrestrial telephone services using VOB technology to private customers. The Group estimates that its market share in the terrestrial telephone services market is not material and in the business market, the group constitute sone of the leading players in the domestic provider world.

11.4.5. Other Terrestrial Services

Transmission services and data communications services, intended for business customers and communications operators, are provided by the Group, which is a leading player in the transmission world for the business market, as well as by the Bezeq, HOT and Partner Groups, and starting 2019 by IBC as well.

IOT solutions are provided by the Group, other communications operators, other integration companies in the field of software as well as additional players entering this market. The Company competes with these companies by offering a broad variety of advanced IOT solutions in conjunction with leading suppliers of IOT services and technologies. The IOT services market is characterized by a high level of competition, in which communications operators offers both communications solutions, including central management solutions for business customers, and end-to-end solutions for customers. The Group cannot estimate its share of this market.

12. Fixed Assets, Real Estate

12.1. **General**

The balance of the Group's fixed assets as of December 31 2022 and December 31 2023 is NIS 1,480 million and NIS 1,535 million, respectively.

For details on restrictions on pledging the fixed assets and equipment used to provide services within the framework of the Group's licenses and additional restrictions on the Group in creating a lien on its assets, see Sections 18.4 and 21.4 below.

12.2. **Communications Networks**

The Group's activity is based, among other things, on its networks. The following are details on the Group's networks in its areas of activity:

12.2.1. Cellular Communications Segment

The Group's mobile network equipment, including base sites which are distributed throughout the country, which provide telecom coverage for the vast majority of inhabited regions in Israel.

(1) **The following are details on the Group's cellular networks as of this report:**

a. 2nd Generation network (GSM/GPRS/EDGE) – a network covering most of the Israeli population and allowing audio calls, data transfer and multimedia services, but at a lower speed than that possible using 3rd, 4th and 5th Generation networks. This network allows a certain level of support for 3rd, 4th and 5th generation networks. For details on the expected shutdown of the 2nd Generation network see (3) below.

b. 3rd Generation network (UMTS/HSPA+) – this network allows full interactive multimedia services by downloading and uploading data at a rate of up to 42 MW per second and 5 MW per second, respectively. This network, which supports services that often require a high level of data transfer, allow support of 4th generation networks through load distribution. The Group intends to continue providing a response for the demand for data communications using UMTS/HSPA+ technology while maintaining service quality. For details on the expected shutdown of the 3rd Generation network see (3) below.

c. <u>4th Generation network (LTE)</u> - this network allows downloading and uploading data at a rate of up to 150 MW per second and 50 MW per second, respectively, and adding 4th Generation frequencies that were the subject of the 2020 tender (as defined in Section 13.5 below), at a rate of up to 400 MW per second and 70 MW per second, respectively[23]. Most of the call and data traffic on the Group's networks is carried out through this network, which covers most of the population of Israel. Upon the activation of the VoLTE (voice over LTE) service, which allows calls to take place over a 4th Generation network, there has been a gradual shift by calls from the 3rd generation network to this one, an as of the publication of the report, over 55% of the calls on the Group's networks are carried out on 4th Generation. Following the Group winning the 2020 tender, as described in 13.5 below, the Group has been working to continue the deployment of the network in additional 4th Generation frequencies, in order to continue providing its customers a data transfer services with as high a rate as possible. The Group's 4th Generation network is in conjunction with Wecom (MOCN configuration). For further details on the network sharing with Wecom, see Section Sharing Agreement **<u>with Wecom</u>**

d. <u>5th Generation network (NR 5G)</u> – launched in 2020. A network based on an advanced technological standard (N78), that allows data downloads and uploads at a higher rate (up to 1.3 GB per second and 50 MB per second, respectively, at a 100 MHz frequency bandwidth). The network allows more extensive use of technologies, including in the field of Internet of Things (IOT). In 2020-2023 the Group deployed the network in select area and intends to continue with the deployment in coming years. For details on the 5th Generation tender, see Section 7.1.4.(1) above. The Group's 5th Generation network is in conjunction with Wecom (MOCN configuration). For further details on the network sharing with Wecom, see Section Sharing Agreement **<u>with Wecom</u>**

The Company is working to build and operate a 5G SA (standalone) network core, which will allow the Company (among other things) to provide full 5th Generation services independent of the 4th Generation

[23] On sites in which the 4th Generation upgrade was completed, including the frequencies covered by the 2020 tender.

network core. The SA network core allows the provision of full network slicing services at the network core.

Most data traffic is carried out on 4th Generation and 5th Generation networks.

(2) In February 2021, the Ministry of Communications has decided to compel cellular operators to implement an additional stage in their commitment to universal deployment relative to 4th Generation networks, as a rule, within two years of the decision date (with the exception of Wecom, for whom the date for issue of an instruction to carry out an additional stage occurred only in 2022). The Company is upholding the deployment commitment in question.

(3) In June 2021, the Ministry of Communication decided to discontinue service using 2G and 3G technology (the "**Old Technologies**") on December 31 2025 ("**the Determining Date**") (including an option to move that date forward, subject to certain conditions, to January 1 2025), and established various interim arrangements that would apply up to the Determining Date. The Company is preparing to discontinue service with the Old Technologies as noted. In addition, the Ministry of Communications instructed to extend the allocation of bandwidths allocated to the Old technologies at the time to use by more advanced technologies by December 31 2030. In this context, in June 2023 the Ministry of Communications published an amendment to the Company's MNO license allowing the Company, subject to its approval, to continue to provide services to subscribers with M2M (machine to machine) equipment using the Old Technologies to December 31 2028 on a limited bandwidth of no more than 1.2 MHz In addition, starting January 1 2027 the Company is entitled to contact the Ministry of Communications with an additional request to extend the service period for such subscribers to December 31 2030. See also Note 32f to the Financial Statements, in the matter of the impact of this decision on the manner fixed assets and intangible assets attributed to the Old Technologies are amortized.

This step will allow the Group to save on operating costs of 2nd and 3rd generation networks and take advantage of the frequencies vacated[24] in order to improve the performance of 4th and 5th Generation networks.

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[24] See section 13.5 below.

The Group intends to continue optimizing its networks in order to provide its customers with maximum support in video, contents and additional uses that require broadband.

(4) Connectivity to the Group's cellular network is largely provided over an independent fiber optic networks, using microwave[25] equipment as a complementary solution. In addition, the Group leases additional optic fiber capacity from Bezeq and HOT for completions.

(5) The Group pays the State of Israel frequency fees for the frequencies used by the Group. See 12.2.2.(2) below. For details on licensing fees paid by the Company for the 5th Generation see Note 32d to the Financial Statements. For details on the discount arrangement for the use of the bandwidths used by the Company, see 21.2.2 below.

(6) In accordance with the Ministry of Communications' requirements from all telephone service providers in Israel, the Group's cellular network (as well as the fixed line network) is linked to the networks of other telephone service providers in Israel, directly or indirectly.

12.2.2. <u>Fixed Line Communications Segment</u>

(1) Most of the Group's fixed assets in this areas of activity is the transmission network connecting most Israeli business centers to the Group's systems and connects most of its base site, in the cellular communications area of activity, to the Group's switches. The transmission network allows the Group to provide its business customers with telephone, transmission and data transfer services and advanced fixed line communications services.

(2) The Group has built and operates an SDH transmission network as well as a carrier ethernet communications network and from time to time expands and upgrades these networks. These networks, which cover most business centers in Israel and include real-time problem management and monitoring services, allowing the Group to provide its business customers and data transfer services (transmission) at a high speed and quality, while reducing the need to sell additional capacity from outside suppliers.

The Group's optical transmission network is deployed strategically in order to provide coverage to most of the business centers in Israel, from Nahariya in the north to Beersheba in the south and to Afula and Jerusalem in the east, and is nearly 2,000 km long (additional use is made of Bezeq infrastructure 1,800 km long and Partner and HOT to negligible levels).

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[25] Equipment used to operate a microwave artery – a communications artery between two points, at high frequencies.

The optic transmission network is monitored by a problem management system that conducts real-time monitoring in order to allow the Group to provide high-quality service. In order to complete the coverage of the Group's network at the majority of its cellular sites and for the Group's transmission and business domestic operator customers, the Group uses a microwave network as a complementary solution for areas that are not covered by the Group's transmission network, which is fiber optic based. As of December 31 2023, the Group had 1,820 microwave arteries to the cellular sites and to the Group's transmission and business domestic operator customers. The Group pays the State of Israel usage fees for frequencies used via the microwave network. In addition, the Group leases additional capacity from Bezeq and HOT needed for the terrestrial services provided its business customers.

(3) In addition, the Group has begun deploying optic fibers to the length of 250 km from Dimona to Eilat on the basis of HOT infrastructure within the framework of the wholesale market arrangement. This deployment is expected to be completed over the course of 2024

The Company's estimates regarding the rate of optic fiber deployment as detailed which constitutes forward-looking information as defined in the Securities Authority, which may not be realized or be realized in part or in a different manner (including in a material manner) than described above. This, among other things, is due to business considerations and/or factors and/or influences that cannot be estimated.

(4) For details on the backup array and the DRP and business continuity plan and disaster recovery, see Section 12.4 and 21.9 below.

(5) As of the publication of the report, the Group's internet infrastructure was comprised of three switching sites located in Hairda, Or Yehuda and Netanya, which are connected using undersea optic fiber systems in which the Group has purchased long-term usage rights to three switching junctions abroad, in Frankfurt, Marseilles and London, through which the Group network is connected to the global internet. For further details see Sections 12.3.3 and 15.2.3 below. This internet infrastructure allows backup capabilities in order to allow continuity of service.

12.3. **Real Estate**

12.3.1. The Group owns no land, and its activity (Group HQ, call centers, warehouses and shops) takes place on land it rents. The following is a description of the material rental agreements the Group is a party to, as of the publication of the report:

Use	Location	Area	The Agreement Period	Notes
Group HQ	Netanya	Some 18,000 used for the Company's offices (alongside service areas) and 440 underground parking spaces.	From January 1 2023 to December 31 2030	- Extension of rental agreement signed in 2003. - The Group has sublet some of the space since 2015, and it was returned to its owners at the end of 2022. - The Group has an option to extend the agreement for existing spaces by an additional 5-year period.
Techno-logistical center	Netanya	Property with an area of 11,000 m².	From October 31 2010 to July 31 2026.	- Starting 2015, the Group has rented part of the property (as of the publication date, 5,500 m²) via sublets.
Offices, call centers, server and equipment storage.	Haifa	Property with an area of 8,500 m².	As of December 31 2023	- The Group has an option (exercised) to extend the agreement for a single two-year period. - Starting 2015, the Group has sublet part of the property (as of the publication date, 1,260 m²).
	Tel-Aviv	Property with an area of 1,500 m².	From March 1 2012 to June 30 2024. The agreement was extended to June 30 2025.	- The Group has an option to extend the agreement to December 31 2027.
	Rosh Ha'ayin	Property with an area of 3,050 m².	Until December 31 2032.	- The Group has an option to extend the agreement by four additional periods of two years each, starting January 2025.
Service centers and points of sale	National deployment	Properties with a total area of 4,700 m², used for 70 service centers and points of sale.	The lease agreements are mostly for periods ranging from one to three years, with a variable option to extend for similar periods, and with the option to terminate the agreements under certain conditions.	- The Group regularly works to limit and close points of service and sales the activity of which is losing money, while also to open points that improve the network's deployment and increase sales. - According to the Group's experience, renewal of the rental agreements may involve higher total proceeds relative to the date prior to the renewal date beyond the linkage to the Consumer Price Index.

12.3.2. Base sites – the Group rents or receives rights from various entities (including from local authorities, government entities such as the Israel Land Authority and private entities) for the construction, maintenance and operation of base sites which are used for its mobile data network. The lease agreements in this regard are mostly for periods ranging from two to five years, with an option to extend for similar periods, and with options of termination, under certain conditions. In certain agreements, the lessor is entitled to terminate the agreement at any time, and for any reason whatsoever, subject to advance notice. On the basis of past experience, the Group encounters difficulties in extending rents at a rate of 5% of the base sites, which occasionally requires the Group to pay higher rental fees in order to leave its facilities in the same areas or fine alternate sites.

12.3.3. Communications equipment and servers storage – the Group rents spaces across the country used to store equipment, communications servers and additional communications equipment for the provision of fixed line services. In addition, the Group rents storage space for its servers and for their relevant equipment in London, Marseilles and Frankfurt, as detailed in 12.2.2.(5) above.

12.3.4. For details on rental fees charged in the Group's Consolidated Financial Statements (whether as rental fees or as depreciation expenses, in light of the implementation of IFRS 16), see Note 14 to the Financial Statements.

12.4. The Group has an operations center located at the Group HQ in Netanya, which is equipped with the measures needed for the continuous management of all switches and sites, to identify problems and dispatch technicians to fix malfunctions. The Group's support systems allow supervision of the network quality. In addition, these systems create statistical mapping for the system's performance and alerts on malfunctions (such as blocked calls, disconnected calls, end equipment failures and so on). In addition, the Group has a backup array at a separate site, and a disaster recovery plan (DRP) for the engineering systems, information systems and support systems for the Group's OTT services. The backup array also provides the system with additional advantages, including greater capacity in certain cases as well as greater durability, which increases the network's survivability in the case of damage to one of its components. In addition, the Group also has a business continuity and disaster recovery plan to continue its activity in accordance with the license's requirements (for details see Section 21.9 below), and in addition it has a survival plan for its television services as well.

13. Intangible Assets

13.1. **Goodwill** – goodwill at the Company is created when allocating excess cost as a result of the purchase of subsidiaries. Goodwill is tested at least once per year for impairment. Goodwill is not depreciated systematically. Total goodwill in the Company's books as of December 31 2023, is NIS 1,563 million, of which NIS 831 million is for goodwill attributed to the mobile segment and NIS 732 million is for goodwill attributed to the terrestrial segment. For further details and goodwill impairment tests see Note 13b to the Financial Statements.

13.2. **Customer relationships and brand** – when purchasing subsidiary Golan (in August 2020), customer relationships and brand assets were identified. The amortized cost balance for these assets was NIS 76 million as of December 31 2023 (NIS 97 million as of December 31 2022). These assets are amortized for a period of 10-16 years, respectively.

13.3. **Customer acquisition costs** – the Company capitalizes incremental costs for the purpose of securing a contract with customers, when the Company is expected to recover these costs in accordance with IFRS 15. The Company amortizes these assets according to the average customer abandonment rate. For details on changes in customer abandonment rates and changes in the abandonment rate see Note 2d to the Financial Statements.

13.4. **Licenses and recording in registry** – for details on licenses held by the Group and listing in the Registry for the purpose of providing services in the field of cellular and terrestrial communications, see Section 21.4 below.

13.5. **Usage Rights for Frequencies in the Field of Cellular Communications**

13.5.1. Frequency Allocation

(1) The availability of frequencies in Israel is limited and frequencies are allocated by the Frequencies Committee through a licensing proceeding. The Group has usage rights for frequencies for the purpose of providing communications services on its communications networks. The licensing fees are amortized in the Company's Financial Statements across the licensing period. In addition, the Group pays quarterly fees at fixed sums (CPI-linked) for the right to use these frequencies. For further details see Note 32(d) to the Financial Statements.

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

a. 2X5 MHz in the 850 MHz frequencies band used by the Group's 3rd Generation network until the end of 2030[26].

b. 2X25 MHz in the 1800 MHz frequencies band used by the Group's shared 4th Generation and 2nd Generation network. 2X3 MHz from these frequencies were allocated to the Group in a 4th Generation tender (in 2015) for a 10-year period and 2X5 MHz allocated originally to Golan, upon the completion of its purchase by the Group, were allocated to Cellcom by the end of 2023 – when, in July 2023, the Group received notice from the Ministry of Communications and the Communications Unit at the Civil Administration in Judea and Samaria, according to which the allocation of 2X5 MHz of bandwidths in the 1800 MHz bandwidth range, which had been allocated to the Group upon the completion of the purchase of Golan as noted above, was extended by an additional period starting January 1 2024 until December 31 2025, or until the 3rd Generation network was closed, whichever comes first. Allocation of the other frequencies (2X17 MHz) is up to the end of 2030.

c. 2X10 MHz in the 2100 MHz frequencies band used by the Group's 3rd Generation network until the end of 2030[27].

d. 2X5 MHz in the 700 MHz frequencies band, for a period of 15 months up to October 2035; 2X10 MHz in the 2,600 MHz frequencies band for a period of 15 years, up to October 2035; and 80 MHz in the 3,500-3,600 MHz frequencies band until October 2030.

e. Within the framework of the shared network with Wecom, use was made of 2X5 MHz in the 1800 MHz frequencies band, 2X5 MHz in the 700 MHz frequencies band, for a period of 15 years; 2X10z in the 2,600 MHz frequencies band for a period of 15 years; and 20 MHz in the 3,500-3,600 MHz frequencies band, for a period of 10 years. These frequencies were allocated to it in June 2022.

   In spite of the above, the Ministry of Communications may, after four years have passed from the allocation of a frequency, reduce, with no compensation or proceeds, the range of frequencies in which the Group may operate, as a rule or in certain geographic regions, for the purpose of more effective utilization of the Israeli frequency spectrum,

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[26] For details on the expected shutdown of the 3rd Generation network see 12.2.1.(3) above.
[27] For details on the expected shutdown of the 3rd Generation network see 12.2.1.(3) above.

and may instruct the Group to share such a frequency with additional operators, in coordination with them.

In addition, inasmuch as the allocation of any of these frequencies is not extended or alternately, the Company is not allocated additional frequencies, the Group might not be able to maintain the same level of cellular communications services it provides.

f. For further details on the Company winning 8 banks with a bandwidth of 100 MHz each within the framework of a tender published by the Ministry of Communications for the allocation of 5th generation frequencies in the 26 GHz frequency bandwidth for a period of 10 years, see Section 7.1.4.(1) above. These frequencies have not yet been allocated to the Company (and are not expected to be part of the shared network with Wecom).

13.5.2. Winning frequencies in 2020 tender

For the new frequencies the Group and Wecom won in the frequencies tender conducted in 2020 (“**the 2020 Tender**”), the Group and Wecom paid a total of NIS 63 million (NIS 115 million after offsetting a bonus of meeting the terms of entitlement to deploy a 5th Generation network).

The 700 MHz frequencies strip serves as a frequency to increase primary coverage for 4th Generation and 5th Generation services.

The frequencies Wecom won along with the Group in the 2020 Tender rand which were allocate to Wecom, are available for the Group's use in accordance with the terms agreed upon with it, including regarding their usage period (as well as 5 MHz in the 1800 MHz frequencies strip that Wecom won before entering the network sharing agreement, are at the disposal of the shared network (as per 13.5.1.(2).e above). Inasmuch as the frequencies in question are at the Group’s disposal, including as a result of the cancellation of the sharing agreement, it is possible that it will not have sufficient frequencies in order to maintain the same quality level of cellular communications services offered by it.

Use of the additional frequencies the Group and Wecom won in the 2020 tender requires the construction or alteration of most cellular sites, which involves material investments, some of which have been carried out and the remainder will be carried out, according to the Group's estimates, within a 3-year period. The difficulties in securing the required approvals and permits may prevent the Group from meeting the deployment requirements set in its license that may grant it performance-based incentives, and may expose it to legal proceedings and the implications of these proceedings.

The Company's estimates in the matter of the preparation period for the construction or alteration of the cellular sites as detailed above, constitute forward-looking information, as defined in the Securities Law. The Company cannot estimate to what degree the difficulties in securing the approvals and permits will impact for changing and/or construction of cellular sites will impact the Group's operating results. The Group's assessments may not be realized or may be realized in part or in some other manner (even in a material manner) than estimated, as they are influenced by a variety of factors not under the Company's control and subject, among other things, to the influence of the factors detailed above and changes that may occur therein, as well as the influence of the risk factors in the Group's activities as detailed in Section 26 26below.

13.5.3. Request to Replace Frequencies

In March 2020 the Ministry of Communications informed the Group and an additional cellular operator that they needed to replace the frequencies allocated to them in the 850 MHz frequency strip to frequencies in the 800 MHz strip, so that they will be compatible with European standards and with the area in which the State of Israel is located.

As of the publication of the report, the Group's bandwidth in the 850 MHz strip was reduced from 10X2 MHz to 2x5 MHz and was moved to an alternate band. On a later date to be determined, the frequencies band in the 850 MHz range will be cancelled and in its place, the Group is expected to be offered a frequencies band entirely in the 800 MHz or 900 MHz strip.

Completion of the frequencies replacement in question will require significant investments and the replacement of radio equipment at most of the Group's cellular sites.

13.6. **Trademarks**

As of the publication of the report, the Group has over 180 domains and nearly 60 trademarks and registration requests. The Group's primary trademarks are Cellcom, Talkman, Cellcom TV, Netvision and 013 Netvision, Golan Telecom and Dynamica.

In accordance with its needs, from time to time the Group files requests to register trademarks, keeps regular track of its trademark renewal dates and extends those it uses from time to time.

The trademarks in question, which include most of the Group's brands, help differentiate its services and products from its competitors.

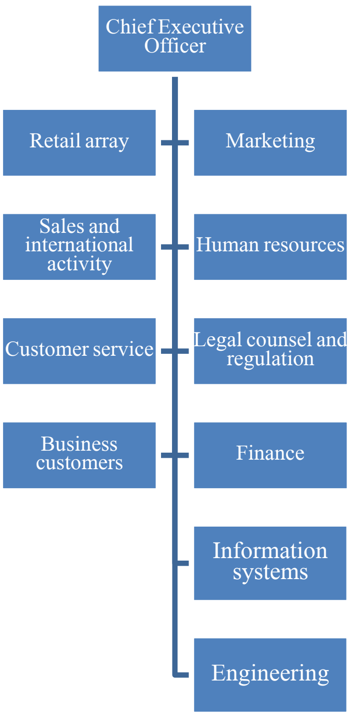
13.7. **<u>GSM Union</u>** – the Group is a member of the global GSM Union, which concentrates various cellular operators from around the world who use GSM technology. As a Union member, the Group may use the Union's intellectual property rights, including use of the union's logo and trademark.

13.8. **<u>Software rights</u>** – the group makes use of software and computer systems, some according to licenses it purchased and some developed by the Group. A significant portion of the licenses in question are restricted by time and are renewed on a periodic basis.

14. <u>Human Capital</u>

The Group's ability to achieve its strategic goals largely depends on the quality of its workers and therefore the group is working to recruit the most suitable candidates for each position and grant workers the training they require to carry out their tasks effectively. The Group assigns a great deal of importance to the fact that its workers are satisfied, while making sure of being efficient and productive. The Group implements a performance analysis system that analyzes, from time to time, employee performance and helps the Group improve their performance and remunerate them accordingly, as well as identification, retention and promotion of its best workers. In accordance with the Group's service approach, as of the publication of the reports, some 57% of the Group's workforce works in customer interface positions.

14.1. **<u>The following is a description of the Company's organizational structure as of the publication of the report:</u>**



14.2. **Worker Roll**

The following are details of the number of employees in the Group[28]:

	December 31 2023	December 31 2022	December 31 2021
Management and HQ	63	57	56
Human Resources	137	137	125
Marketing	46	41	35
Customers*	1,878	1,993	1,880
Finance	106	92	95
Engineering and Information Systems	528	521	520
Total	2,758	2,841	2,711

* Units providing services to customers, including business customers, sales, retail array, customer home array and customer services.

14.3. **Training and Instruction**

The Group, from time to time, sends its employees to various training programs, which include professional courses, general training in the field of customer services, executive training and so on.

Telephone and fontal customer service reps and other worker teams who come into contact with customers, undergo extensive training before they start carrying out their duties in the Group and regular training during it, in accordance with the nature of their duties.

14.4. **Employment Conditions**

The Group has personal employment conditions with its workers, some of whom earn a global monthly salary and some of whom are employed for monthly or hourly salaries. Most service and sales workers have a performance-based incentive. In addition, most Group workers are subject to the terms of the collective agreements at the Group. The vast majority of Group workers has signed confidentiality and non-compete agreements. For details on the collective agreements see Section 14.5 below.

Engagements with officers and members of senior management at the Group is also in accordance with terms set in personal agreements, by way of employment as employees, after detailed negotiations, subject to the Company's executive remuneration policy, which was recently approved as per Section 14.6 below.

For details regarding remuneration for Company executives see Regulation 21 in Chapter D (Additional Information Regarding the Corporation) in the Periodic Report.

[28] To be clear, the following data refers to positions in each sector (unlike the number of employees). In other words, a single full-time position may be comprised of two employees each in a half-time position. The data reflects the Group’s organizational structure as of 2023. Dat for previous years has been presented accordingly.

14.5. **Collective Agreements**

14.5.1. Previous Agreements

(1) **Cellcom and Dynamica**

On April 20 2021 a collective agreement was signed between Cellcom and Dynamica and the New Geneal Workers' Histadrut – Cellular, Internet and High-Tech Workers' Union – the workers' committee ("**the Workers' Committee**" and the "**Previous Collective Agreement**" as the case may be). The Previous Collective Agreement applies jointly to Cellcom and Dynamica (which are defined together as a "company" for the purposes of the Previous Collective Agreement) and on Cellcom workers and dynamical workers (defined together as "**Company Employees**").

The previous collective agreement applied from January 1 2021 to December 31 2023.

The previous collective agreement applied to all Company workers, with the exception of a number of employees in specific positions that are excluded from the incidence of the Previous Collective Agreement. The Previous Collective Agreement defined the policy and terms of employment of the Company's employees in various aspects, similar to those regulated in previous collective agreements applicable to Cellcom since 2015 and to Dynamica since 2016, including yearly salary increases (on average 3% in 2022 and 2023 for entitled employees in accordance with a minimum level of seniority set, with some of the sum being at the managers' discretion), incentives, social benefits (including pension provisions, sick pay, convalescence pay, clothing, vehicles and more), a provision to an education fund (for workers who have completed 36 months of work at the Company), participation in the operating profits of the Cellcom Group (12.5% above the yearly operating profit of NIS 400 million at Cellcom, Dynamica and Golan (together), divided by quarter, for employees who have completed 30 months of work at the Company). In addition, a welfare budget was set for employees as well as various procedures pertaining, among other things, to manning positions at the Company, changing the employment location and dismissals. In accordance with the collective agreements, the workers are hired as probationary workers, and after 42 months (3.5 years) they receive the status or regular workers (subject to the terms set in the agreement), and it has been established that a regular company worker may not be dismissed except for poor functionality, severe disciplinary violations as well as streamlining or cost cutting. Within the framework of the agreement, conflict resolution mechanisms as well as membership fee payment obligations were established. In addition, in February 2020 a collective agreement was signed according to which foreign workers (as defined in the agreement) were granted options and RSUs for Cellcom shares, under the vesting terms detailed in the agreement in question.

In addition, the previous collective agreement grants the Workers' Committee the right to recommend a single director for the Company Board of Directors.

(2) **Golan**

In January 2023, a special collective agreement as signed between Golan and the New General Workers' Histadrut and the Workers' Committee ("**the Golan Agreement**"). The parties have decided to adopt the previous collective agreement (as defined above) of Gola workers, subject to changes and adjustme nts, among other things regarding the trial period of Golan workers that will amount to 3.5 years, the granting of one-time bonuses, performance-based varied remuneration and the entitlement to participate in mean budgets. The Golan Agreement will remain in effect until December 31 2023 or until a new collective agreement comes into effect at the Company and at Dynamica.

14.5.2. <u>The Collective New Agreement</u>

(1) After the expiry of the previous collective agreement on December 31 2023, on January 10 2024 the Company received notice of a work dispute from the New General Workers' Histadrut the workers' union representing the Company's workers, as well as Dynamica and Golan, this, among other things, in connection with the workers'; demands to negotiate to sign a collective agreement that will regulate their rights following the sales agreement signed for the sale of DIC's shares in the Company (as detailed in Section 1.2.4 above), including the payment of a sales bonus to employees, as well as due to a dead end in the negotiations for signing a new collective agreement at the Group for 2024 onward. In accordance with the message in question, the workers' representatives may announce organizational steps, including a strike, starting January 25 2024.

(2) On March 11 2024 the Company, Dynamica Communications Chain Stores Ltd. and Golan Telecom Ltd. (both companies fully (100%) owned by the Company) engaged in a collective agreement with the Workers' Committee and the New General Workers' Histadrut ("**the New Collective**

Agreement"), for a period of three years (2024 to 2026)). The New Collective Agreement includes a policy and terms of employment similar to those employed at the Company with a number of changes, including granting salary additions to eligible workers at a rate of 3% in 2024 and of 3.5% in 2025 and 2026 (with certain offsets set); granting an additional salary bonus at the rate of the increase in minimum wage in 2026 for workers with a certain level of seniority and who meet the criteria; payment of a one-time bonus paid a group of employees with certain seniority at the Company who are entitled to it ("**the Bonus**"); granting a personal budget for the purpose of purchasing welfare products and services, as well as increasing the budget for welfare activities; limiting the budget of bonuses granted employees for participation in Company profits; payment of a special one-time bonus to entitled employees (as defined in the New Collective Agreement) paid subject to the completion of the transaction as per 1.2.4 above ("**the Special Bonus**").

The New Collective Agreement exhausts the parties' claims until December 31 2026 for the subjects regulated in it, and includes the parties' obligation to maintain industrial quiet on the subjects regulated in it. The work disputes declared at the Company from January 10 2024 and June 14 2022 have been revoked.

The estimated cost of the arrangements included in the New Collective Agreement is estimated at NIS 165 million (after neutralizing the bonus and the special bonus in question – some NIS 26 million for 2024, NIS 40 million for 2025 and NIS 59 million for 2026). The cost that will be recorded by the Company for the bonus is NIS 20 million. In addition, the cost that will be recorded by the Company for the special bonus (inasmuch as the transaction in question is completed) is NIS 20 million.

The above regarding the special bonus constitutes forward-looking information, which may not exist inasmuch as the transaction is not completed, due to factors not dependent on the Company. In addition, some of the costs in connection with the new collective agreement are based on the Company's estimates and assessments connected to the scope of realization of some of the benefits included in the New Collective Agreement, and these may change, among other things, while taking into account additional factors that are not dependent on the Company.

14.6. **<u>Employee Remuneration Programs</u>**

14.6.1. <u>Performance-based employee remuneration</u> – some of the Group’s employees (who are not officers) are entitled (if the terms detailed in the collective agreement employed by the Company are met) to a yearly bonus based on the Group’s performance and their personal performance.

14.6.2. <u>Capital remuneration for employees</u> – in March 2015 the Company adopted an options plan and/or blocked share units for employees, officers and service providers at the Group. The plan in question was revised in March 2023. For details on the Company's outline and immediate report on the granting of options and RSUs to entitled employees in accordance with the Company’s collective agreement with its employees as well as a private offering that is not material to the future granting of options to employees not within the framework of the collective agreement see the Company's immediate reports from March 10 2022 and April 4 2022 (references no. 2022-01-028354 and 2022-01-042670, respectively) as well as an immediate report on a revised outline from March 9 2023 (reference no. 2023-01-025173), included in this report by way of referral.

14.6.3. <u>Executive remuneration policy</u> – on August 21 2023, the General Meeting of Company Shareholders, after receiving the recommendations of the Remuneration Committee and the approval of the Board of Directors (among other things), ratified the remuneration policy for Company officers (in effect as of August 12 2023) (for details see Section 29.c.2. of Chapter D, Additional Information Regarding the Corporation).

15. <u>Suppliers</u>

The Group has agreements with a large number of suppliers to purchase communications equipment, information systems, content services, end equipment and more.

15.1. **<u>Primary Suppliers</u>**

The Group considers a primary supplier to be a supplier from whom the total yearly scope of the Company's purchases exceeds 10% of the Group's total yearly purchases. Accordingly, Samsung International Co. Ltd. (“**Samsung**”) and Apple Distribution International (“**Apple**”) are primary Group suppliers for 2023, as the rate of the Group’s purchases from them from the Group's total purchases in the period in question constituted 10.3% and 11.4%, respectively.

15.2. **<u>Dependence on Suppliers</u>**

Some of the Group’s suppliers are suppliers the discontinuation of the engagement with whom may negatively impact the quality of some of the Group's services or lead to the cancellation of its licenses as a result of their failure to comply with the requirements of the licenses and therefore they may be considered suppliers upon which the Group is dependent. The following are details regarding these suppliers:

15.2.1. <u>Cellular Network Equipment</u>

(1) The Company has a framework agreement with NSN Israel, which belongs to the Nokia Networks Group, an international networks manufacturer, to purchase an LTE network that also supports LTE-Advanced (4.5 Generation) technology, purchase of advanced 4th Generation and 5th Generation technology and purchasing associated components and services. This agreement also applies to the purchase of equipment and services provided within the framework of the Group's previous agreement with NSN Israel, in connection with the core system, the radio network and associated services in accordance with the Group's IMS/HSPA/UMTS/EDGE/GPRS/GSM networks[29]. The Group has also entered into an agreement to build and operate a 5th Generation network core (standalone). By virtue of the agreement, the Group may also purchase maintenance services

(2) The Company has an agreement with LM Ericsson Israel Ltd. to purchase a radio network and associated services using UMTS technology, upgraded UMTS/HSPA products and associated products. In December 2011, the Company engaged in an agreement with LM Ericsson Israel Ltd. to purchase upgraded UMTS/HSPA products and associated products. By virtue of the agreement, the Group may also purchase maintenance services

(3) The Group uses the smart network platform from Telcordia Technologies, Inc. (purchased by Ericsson), which provides services for the Group's cellular networks and allows, at low costs in short periods of time, the internal development of smart services adapted to the requirements of the Israeli market[30].

15.2.2. <u>End Equipment</u>

(1) Samsung provides the Group with Samsung-branded cellular phones additional products and space parts for these devices. The terms of purchase, including the price, are determined from time to time by negotiations between the parties.

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[29] IMS (IP Multimedia Subsystem) is a software system that allows the transfer of multimedia services (such as voice, video and text messages) over IP networks such as VoLTE and VoWIFI.

[30] In February 2022 an agreement was signed to replace the platform in question with a new system, on a cloud infrastructure, subject, among other things, to the Company's right to decide whether to install the new system or cancel the project.

(2) Apple provides the Group with iPhone-branded cellular phones additional products and space parts for these devices. The terms of purchase are set in the agreement to purchase and distribute iPhone products in Israel.

15.2.3. Internet Infrastructure

(1) The Group has a number of agreements with Telecom Italy Sparkle ("**TIS**") and Tamares Telecom Ltd. ("**Tamares**") for the purchase of usage rights for certain capacities of undersea communications cables connecting the Israeli internet to the global internet, as well as maintenance and operation services for this infrastructure. The usage rights purchased by the Group will be in effect with TIS until 2027 and with Tamares until 2031.

(2) Starting 2015 the Group has been purchasing but stream access ("BSA") internet services from Bezeq in accordance with wholesale market terms regulating both the specifications of services and the service prices, which include a fixed element and a component based on the required capacity the Group needs for its customers. Starting July 2021, the Company has purchased this service from Bezeq also on Bezeq's fiber optic infrastructure, with the maximum service price being fixed regarding the speeds defined in the regulation rules (for details see Section 21.6.2 below).

(3) For the agreement between the Group and IBC to purchase indefeasible rights of use (IRU) in the IBC fiber optic infrastructure, see Section 17.1 below.

(4) The Company has an agreement to purchase a transmission and IP network manufactured by Cisco Systems Inc. ("**Cisco**"). The Group also purchases maintenance services from Cisco for this system and for other IP systems.

15.2.4. Other Suppliers in the Field of Terrestrial Communications

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

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

(3) BroadSoft Inc. (of the Cisco Group) provides the Group (through a local integrator) a system for the provision of advance fixed line switchboard services solutions for business and private customers.

15.2.5. Equipment and Contents for Television Services (OTT)

(1) The Company has an agreement with Kaltura Europe Ltd. to purchase a platform and provide cloud based content management service for the

Group’s OTT television service. The platform allows, among other things, the assimilation, management, distribution and analysis of the content.

(2) The Company has an agreement with Vubiquity Management Ltd. (of the Amdocs (Israel) Group Ltd. – “**Amdocs**”), a leading international supplier of multi-platform video services and solutions, to provide international video content services and operation and management services for the Group’s OTT service.

(3) From time to time the Company enters into agreements to purchase broadcasting rights and receive a license to use content with third parties for various periods of time, including, among others, Charlton Ltd., the RGE Group, Keshet Broadcasts Ltd., Media Network Ltd. and the Israeli Broadcasting Corporation.

15.2.6. Information Systems

The Group uses a variety of information systems that allow the supply of customer services while improving internal processes at the Group. The Group’s billing and CRM (customer relations management) systems are mainly supported internally by the Group. As of the publication of the report, the Group is continuing to develop additional modules for the Company's CRM system (the customer service system for the mobile and terrestrial segments), which it developed itself. In 2021 this system replaced some of the systems used by the Group, and since June 2021, as a rule, the Group regularly develops new modules independently, including supporting the sales processes and work processes with private and business customers.

The following are the Group’s primary suppliers of information systems:

(1) The Group uses an Amdocs system for customer billing.

(2) The Company uses an Avaya system for managing incoming calls to the Group's call centers and direct calls in a call back configuration.

(3) The Group uses ERP solutions provided by SAP, which starting January 2024, are regularly maintained by SAP (and were previously maintained by Remini).

16. Working Capital

The Group's working capital is comprised of customer credit and supplier credit as detailed below.

16.1. **Supplier and Customer Credit**[31]

16.1.1. Credit from end equipment sales transactions – the Group grants its customers who have purchased end equipment, the option to spread payments into up to 36 equal installments. In order to reduce the risks in connection with credit exposure, from time to time the Group examines its credit policy and within this framework, the Group examines the financial fortitude of its customers (in accordance with parameters set by it).

16.1.2. Credit from monthly billing for communications services – the Group's customers are debited once per month on various dates for the consumption of communications services for the previous month.

Most Group customer payments are through monthly billing with credit cards.

16.1.3. The Group receives credit from its suppliers for variable periods, in accordance with agreements with the various suppliers[32].

16.1.4. The following is data on customer and supplier credit for 2021, 2022 and 2023:

	2023		2022		2021	
	Scope of Credit in Millions of NIS	Average Days of Credit	Scope of Credit in Millions of NIS	Average Days of Credit	Scope of Credit in Millions of NIS	Average Days of Credit
Customers for the Sale of End Equipment*	382	116	376	113	370	132
Customers for services*	490	63	474	62	429	60
Suppliers	811	64	791	57	737	64

* Less doubtful debts

16.2. **Working Capital**

16.2.1. The following is data on the Group's working capital in millions of NIS:

	As at December 31 2023	As of December 31 2022	As at December 31 2021
Current assets	1,635	2,012	1,800
Current liabilities	1,981	1,924	1,710
Surplus (current liabilities) on current assets.	(346)	88	90

[31] From time to time the Company performs factoring for customer credit regarding certain types of activity at sums not material to the Company.

[32] The Company performs factoring on payment to certain suppliers at sums not material to the Company.

16.2.2. For details on working capital deficit and the Company's policy and its plans for dealing with the deficit in question, see Section 5.1 of the Board of Directors Report.

17. Investments

17.1. **Agreements for the Group's investment in IBC** – in July 2019 the Group completed an agreement to invest in IBC. As noted above, IBC is a communications company that offers communications infrastructure services in Israel by the deployment of optic fiber, including on the electric infrastructure of the Israeli Electric Corporation Ltd. ("**the Electric Corporation**"). The transaction for the investment in IBC is comprised of a number of agreements, key of is as follows:

17.1.1. Partnership agreements - The Company entered into agreements with TIS and the IIF for the formation of a limited partnership (the IBC Partnership), jointly owned in equal portions, which would acquire 70% of the shares of IBC.

17.1.2. Share purchase agreement - the IBC Partnership, the Electric Corporation and other main shareholders and creditors of IBC entered into a framework agreement in which the IBC Partnership purchase 70% of the issued and paid-up stock capital of IBC through an investment of a total of NIS 110 million in IBC by the IBC Partnership (of which the Group paid a half) ("**the Proceeds**"), with most of the sum given to IBC as a shareholders' loan (the loans are linked to the Consumer Price Index and were given at interest rates of 4%-6% above the highest senior debt). According to the share purchase agreement, the balance of 30% of IBC's issued and paid-up stock capital will be held by the Electric Corporation. For details in the repayment of the shareholders' loan in question, see Note 8 to the Financial Statements.

17.1.3. Shareholders agreement – the Partnership entered into a shareholders agreement with the Electric Corporation that formalizes the management of IBC, including certain arrangements with respect to the financing of IBC, and dilution (and non-dilution, in certain circumstances) of the shareholders not participating in the financing.

17.1.4. IRU Purchase agreement in IBC fiber optic infrastructure –

(1) In accordance with the agreement updated upon the completion of HOT's investment transaction in IBC, the Group was required to purchase from IBC an IRU in IBC infrastructure lines at a rate of 10% (which would gradually increase to 15%)[33] from customer homes in buildings connected

[33] The Group's liability amounted to 15% until the completion of HOT's investment transaction in IBC, and since then (and until June 30 2023, as will be detailed below in the matter of engagement in a new agreement from March 2023), amounted to 10%.

to the IBC fiber optic infrastructure ("**Home Pass**"), all in accordance with the deployment of the optic fiber infrastructure that will be carried out by IBC over the course of the 15 years from the start of the provision of services by IBC ("**the First Services Period**") (including an option to extend the use of lines for additional periods under certain conditions, for no additional proceeds with the exception of the payment of yearly maintenance fees). The IRU payment varies in accordance with the actual deployment of the Home Pass infrastructure by IBC, and is expected to grow each quarter in accordance with the added infrastructure deployed that quarter. The IRU payment will be made, as a rule, in 36 quarterly installments (9 years) plus fixed yearly interest set in advance and plus yearly maintenance fee payment. The IRU agreement decreased the Group's costs at the customer level as a result of the use of IBC infrastructure in lieu of the use of Bezeq and HOT infrastructure, and led to a discontinuation of its investments in the independent deployment of fiber optics in residential areas. To guarantee all of the payments the Group is required to make in accordance with the agreement, it provides IBC autonomous bank guarantees, according to a mechanism set and at a scope that does not exceed NIS 50 million. For the Group's estimates on the impact of this agreement on the Company's competitive status, see 11.4 above. As of December 31 2022 and December 31 2023, the accumulated amount of the Home Pass is 1 million and 1.5 million, respectively.

(2) On March 26 2023, the Group entered into an additional agreement with IBC ("**the Agreement**"), within the framework of which it was determined, among other things, that starting July 1 2023 the Group's obligation to purchase from IBC an IRU for the IBC communications lines would amount to a rate of no less than 12.5% of the homes of customers connected to the IBC network (in lieu of 10%, set upon the engagement in the original agreement) and will reach 15% (starting July 1 2024), all regarding the balance of the first services period.

In light of IBC's commitment to work to expand the deployment of its infrastructure beyond its obligations in accordance with the terms of its license, the Group undertook that it would purchase IRU services on infrastructure lines from IBC only, for a fixed period of no less than 3 years and under certain agreements, all as detailed in the agreement.

It was also agreed that the Group would receive a quarterly discount at a variable rate for the maintenance fees paid by virtue of its IRU agreement with IBC, starting July 1 2023 and until December 31 2025, at sums not material to the Company.

17.1.5. Services agreement with Electric Corporation – the IEC and IBC entered into an agreement that updates the existing IBC agreement for usage rights and the provision of services to the IBC optic fiber network deployed on IEC infrastructure. The services agreement with the IEC includes updated and improved prices and arrangements with respect to IBC's exclusive right to distribute optical fiber over the IEC's power grid, and regarding other services provided by the IED to IBC in this regard.

17.2. **Agreements for HOT investment transaction in IBC** – in February 2021 an investment transaction by HOT (along with related parties) in IBC was completed. In addition to standard and customary conditions, the transaction included an undertaking to significantly increase the distribution of IBC's fiber optic network the coming years, and the following main points:

17.2.1. Investment agreements - between the IBC Partnership and HOT, under which HOT became an equal partner in the IBC Partnership (such that each of the partners will indirectly hold 23.3% of IBC's share capital), by making an investment which will be essentially identical to the investment that was made by the Group and the IIF, until the transaction completion date. In addition, the investment agreements included additional corporate governance rights and other mechanisms, including right of first refusal and joining rights as well as put option mechanisms, according to which (1) in the period (a) between January 1 2025 and December 31 2026 or (b) starting January 1 2025 and in the event that HOT had purchased all of the IIF's holdings in the IBC Partnership and in its general partner, the Company will have a put option upon the realization of which, HOT will be obligated to purchase all of the Company's holdings in the IBC partnership and in its general partner; (2) starting January 1 2026, and so long as HOT holds at least one third of the shares of the general partner in the IBC Partnership but fewer than two thirds of the total shares of the general partner in the IBC partnership, HOT was given the right to operate a deciding right in connection with decisions that will be made by the Board of Directors and General Meeting of the general partner and of the IBC Partnership with certain exceptions. If the right is activated by HOT, each of the other shareholders in the general partner in the IBC Partnership (including the Company) shall have the right to compel HOT to purchase its shares in the IBC Partnership and in its general partner.

17.2.2. Agreement regarding the purchase of IRU in IBC's fiber optic infrastructure - between IBC and HOT, in which HOT undertook to acquire indefeasible rights of use in IBC's fiber optic network.

17.2.3. Services agreements - between IBC and HOT, in which IBC undertook to purchase certain services from HOT, and was entitled to purchases additional services.

Note that IBC also undertakes to continue purchasing certain services from the Group that the Group provides to it after the completion date.

Approval of the Ministry of Communications for the transaction including amendments to the IBC license, including a commitment to deploy the network so that 1.7 million households are accessible to the network within 5 years of March 2021, which as a rule reflects the contractual agreements in the transaction, as noted above, as well as provide a shelf offering report to each operator interested in purchasing its services As of the publication of the report, IBC has deployed to 1.5 million households, and it intends to continue expanding the deployment of infrastructure to 2 million households.

17.3. In March 2020 IBC entered into an agreement with an Israeli financial institution, in which the financial institution provided IBC with a credit framework of up to NIS 350 million, which will be redeemed by December 31 2032 ("**Original Credit Agreement**"). The Original Credit Agreement was provided IBC for the purposes of its business activity, including the continued deployment of fiber optic infrastructure in Israel. The agreement includes generally accepted conditions and commercial restrictions. In January 2022 IBC entered into an additional credit framework agreement for the purpose of its business activity as noted above, according to which the credit framework in accordance with the original credit agreement that has not yet been used (some NIS 150 million) would be reduced to NIS 60 million and a new credit framework would be provided to the sum of NIS 440 million, both of which would be in effect for 48 months. Sums withdrawn by IBC would be redeemed by December 31 2032. In addition, in September 2023 IBC entered into an additional credit framework agreement to the sum of NIS 450 million, from Israeli financial lenders, which would remain in effect until December 31 2025. Sums withdrawn by IBC for this credit framework shall be redeemed by October 15 2034. Note that within the framework of these agreements, the consent and commitment has been given, among other things, from shareholders in IBC (directly and indirectly) for the inferiority of their rights relative to the rights of the lenders, and consent was given for negative liens regarding the Company's holdings in the general partner in the IBC partnership).

18. Financing

The Group mainly finances its activity through cash flows from ongoing activity, taking loans/credit from banking corporations and financial corporations, as well as through the issue of securities, including debentures, commercial securities and regular shares.

18.1. Average and Effective Interest Rate

The following are details of the average interest rate and the effective interest rate on long-term Company loans and debentures (including current maturities) in effect, or which were in effect over the course of 2021, 2022 and 2023, which were not intended for unique use by the Company, while distinguishing between bank credit sources and non-bank credit sources:

	2023		2022		2021	
	Average Interest Rate	Effective Interest	Average Interest Rate	Effective Interest	Average Interest Rate	Effective Interest
Non-Banking Sources – CPI-Linked	2.09%	4.14%	2.6%	4.22%	2.05%	4.26%
Non-Bank Sources – Unlinked NIS	3.28%	4.18%	3.20%	4.12%	3.20%	4.10%
Bank Sources – Unlinked NIS	-	-	-	-	4.00%	4.00%
Total liabilities	3.14%	4.18%	3.01%	4.14%	2.97%	4.13%

18.2. The Company's Debentures and Commercial Securities

As of this date, there are outstanding debentures from Series H to M issued by the Company (“**the Debentures**”) and commercial securities not listed for trade. For details on the Company's debentures, see appendix to the Report of the Board of Directors as well as Note 18 to the Financial Statements.

18.3. Credit and Loans from Banking Corporations and Financial Corporations

18.3.1. For details on loan and credit agreements that are material as of the publication of the date or which were in effect during the reported period, see Note 18c to the Financial Statements.

18.3.2. The Group engages from time to time with financial corporations, over the regular course of business, in framework agreements for the receipt of various banking services, such as credit frameworks, hedging transactions and factoring transactions.

18.4. **<u>Limitations on the Receipt of Credit</u>**

18.4.1. <u>Restrictions by virtue of deeds of trust for the holders of Company debentures</u> – for details in the Company's obligation to comply with financial covenants, restrictions on distribution and additional restrictions as they appear in the deed of trust of the debentures (Series H-M) issued by the Company and not yet redeemed, see Note 18b to the Financial Statements.

18.4.2. <u>Restrictions by virtue of agreements with financial and banking corporations</u> – for details on existing restrictions in framework agreements for the provision of credit to the Company with financial and banking corporations, see appendix to the Report of the Board of Directors.

As of December 31, 2023 and the publication of this report, the Company is in compliance with all of the financial covenants and other restrictions applicable to it by virtue of the deeds of trust for holders of the Company's debentures and by virtue of agreements with financial and banking corporations.

18.5. In accordance with Legal Position number 104-15 "Reportable Credit Events" from the Securities Authority from October 2011, as updated in March 2017, February 2023 and January 2024 ("**the Authority's Position**"), the Company has debentures at a total sum (principal) of NIS 2,335 million, commercial securities to a total sum of NIS 200 million[34] and as of December 31 2023 unused binding credit frameworks from banking bodies and institutional bodies to the sum of NIS 300 million, and as of the publication of the report to the sum of NIS 450 million, which include (each framework agreement according to its terms) a material cross-default stipulation (as this term is defined in the Authority's Position), subject to quantitative threshold conditions as set in the agreements[35]. In accordance with the above, in the event of the existence of a material cross-default cross stipulation in one or more of the above loan agreements, and subject to the quantitative threshold set in any such loan agreement, there may be a right to place all of the loans detailed above for immediate redemption. For details on material financial criteria in the Company's loans, as noted above, see Note 18 to the Financial Statements as well as the appendix to the Board of Directors' report.

18.6. **<u>Guarantees</u>**

For details on bank and other guarantees given by the Company, see Note 31(b) to the Financial Statements. For details regarding additional collateral for the Ministry of Communications and IBC, see 21.4.2 and 17.1.4 above.

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[34] Subsequent to the report date the Company issued commercial securities to a total sum of 200 million NIS.

[35] Note that in such agreements and in the deed of trust to the debentures, there is a threshold sum for the material cross-violation stipulation that exceeds 150 million NIS, except regarding the debenture series, for which no such threshold sum exists.

18.7. **Credit Rating**

As of the publication of the report, the Company and the Company's debenture series (Series H through M) are rated ilA+ Stable by Standard $ Poor’s Maalot Ltd. (“**Maalot**”), with the latest rating date being November 15 2023.

As of the publication of the report, the Company's series of commercial securities (Series 1) is rated ilA-1 by Maalot, with the final rating date being January 15 2024.

For further details on the rating history of the Company's debentures and commercial securities, including changes occurring in such ratings, see appendix to the Report of the Board of Directors.

18.8. **Raising Additional Resources.**

On April 20 2021 the Company published a shelf prospectus (reference no. 2021-01-066729). The shelf prospectus in question allows the Company to offer and sell various securities including debt and capital in Israel. In April 2023 the Securities Authority decided to extend the period for securities offers in accordance with the Company’s shelf prospectus, bearing a date of April 21 2021, by 12 additional months, meaning to April 20 2024.

19. Taxation

For details regarding tax laws applicable to the Company and the Company’s tax assessments, see Note 29 to the Financial Statements.

20. Environmental Risks and their Management

20.1. **General**

The Company works to protect the environment and reduce its impact on the environment and landscape. The Group dedicates personnel, money and technology to reduce its ecological footprint, among other things, through the effective deployment of infrastructure, recycling electronic components, reducing the use of paper, reducing polluting emissions, collecting used batteries, issuing a monthly invoice and other correspondence with customers via email, WhatsApp or text messaging, separation between different types of waste and purchasing electricity manufactured by a private natural gas-based power plant.

20.2. **Non-Ionizing Radiation**

End equipment and various types of cellular antenna types are known to emit non-ionizing radiation and are subject to regulation, including the Radiation Law and serve as the subject to public debate and concerns. The International Cancer Research Agency (a World Health Organization agency) has classified the electromagnetic radio frequency fields as a possible factor for cancer among humans, based on the increased risk of

Glioma, a malignant form of brain cancer, in connection with the use of cellular phones. There are various existing and current studies on the connection between electromagnetic radiation and the use of cellular devices and the risk of cancer and other health issues.

The guiding principle in the subject to exposure to non-ionizing radiation in general and cellular telephones in particular is the principle of preventive caution. Recommendations on this subject have been published by the authorities, including the Ministry of Health and Tnuda, the national knowledge center for the impact of non-ionizing radiation on health. According to Tnuda's recommendations, exposure to radiation emitted from cellular devices can be decreased by simple measures, in accordance with the following principles: distance, time, strength. There are also special recommendations regarding infants, children and youths, who are considered at-risk populations in all matters pertaining to the health impact of various exposures.

In addition, in March 2020 the International Commission on Non-Ionizing Radiation Protection (ICNIRP) revised the guidelines for protection from radio frequency radiation published by it in 1998. The exposure limits underwent a process of examination and validation in the 22 years from the previous publication and were updated on the basis of scientific knowledge accumulated in this period.

20.3. **<u>Establishing Base Sites</u>**

The regulation of the deployment of base sites and cellular broadcasting facilities, their construction and the required approvals, are mainly anchored in the Radiation Law, the Planning and Construction Law and TMA 36. For details on the provisions of the Planning and Construction Law in connection with the deployment of base sites and broadcasting facilities as noted, see Section 21.5 below.

According to the Radiation Law, cellular sites or facilities may not be built or operated without a construction permit and an activation permit from the Ministry of Environmental Protection. Receipt of a construction permit from the Ministry of Environmental Protection is a precondition for the receipt of a building permit from the Planning and Construction Committee or an exemption from it, and the receipt of a building permit or exemption from one is a precondition for the receipt of an activation permit from the Ministry of Environmental Protection. Both regarding a construction permit and regarding an activation permit, the applicant must present the measures taken (including technological measures) to limit the exposure levels from each base site or cellular facility).

The construction permit shall be in effect for a period not exceeding three months, unless it has been extended by the Radiation Supervisor at the Ministry of Environmental Protection "**the Radiation Supervisor**"), and the validity of the activation permit is for a period of five years, subject to the submittal of yearly radiation surveys for other sites or facilities, conducted by third parties certified to do so by the Radiation Supervisor. The construction and/or activation permits have various terms detailed that regulate the construction and/or activation of the sites. The Group receives construction and activation permits for the Group's cellular sites and broadcast sites from the Radiation Supervisor within the relevant time framework. In addition, cellular operators, including the Group, are required to provide the Radiation Supervisor with ongoing online data on the outputs of each of their cellular sites or other broadcasting facilities. The Group transfers the required data to the Radiation Supervisor.

The Radiation Law regulates permitted radiation exposure levels, supervision of the activity of the cellular sites and/or broadcasting facilities, and grants the Supervisor the authority to order the evacuation of a cellular site or some other broadcasting facility operating in violation of the permit. In addition, the Radiation Law, imposes criminal sanctions on the Group and its officers for violating the law. Failure to comply with the terms of the Radiation Law or the terms of the permit may lead to the cancellation of the permit or its delay and the delay of the permit for additional sites of the same operator.

20.4. **End Equipment**

Cellular services are provided using end equipment emitting non-ionizing radiation.

The Consumer Protection Law (Information on Non-Ionizing Radiation from Mobile Telephones), 2002 ("**the Radiation Regulations**"), determine how customers are informed in this context. The Radiation Regulations and the information booklet they publish set the maximum level of radiation of a mobile telephone device, measured according to SAR data[36]. The SAR level of the prototype of each model is measured by the manufacturer. To the best of the Group's knowledge, the models of the end equipment marketed by it meet the SAR level required by law. At the same time, the Group does not carry out SAR tests for end equipment and relies on manufacturer publications for each model. The Group receives certain approvals from the Ministry of Communications and the Standards Institute in the matter of importing end equipment. The approvals required that the model meet all relevant standards, including SAR levels. The Group publishes information on its website on the level of SAR emitted from cellular phones, and refers to the recommendations of relevant authorities regarding preventive rules of caution when using cellular phones.

20.5. **Material Environmental Events or Matters**

As of the publication of the report, to the best of the Group's knowledge it is not exposed to material environmentally related events or matters.

[36] The SAR test is carried on a prototype of each model and not on each individual device. Therefore, the Group has no information on SAR level of the end equipment over the course of the equipment's life span, including after its repair. The Group informs its customers that in the event of equipment repairs, there may be changes at the SAR level.

20.6. **Material Environmental Legal or Administrative Proceedings**

As of the publication of the report, to the best of the Group's knowledge it is not a party to any environmentally related legal or administrative proceedings.

20.7. **Group Policy with Respect to Environmental Risks Management**

The Group implements a work procedure regarding the acquisition of base sites and site licensing, environmental licensing procedures for the base site and periodic radiation tests, which the Group conducts, *inter alia*, in order to ensure compliance with legally binding standards.

In the matter of conducting periodic radiation tests and transferring ongoing data online to the Commissioner in the matter of the outputs of each of the Group's base sites or other broadcasting facilities, see Section 21.5 below.

21. Restrictions and Supervision of Group Activity

The following are details on laws, regulations, guidelines and additional matters under regulatory supervision, which are material to the Group's activity, including references to legislative or regulatory initiatives, that to the best of the Group's knowledge are in various stages of legislation or regulation, but where there is no certainty that they will be accepted and if they are accepted, what the final text of the legal provisions or licensing be in the matters described in their regard.

21.1. **General**

The Israeli communications market is characterized by a high and dynamic level of regulatory involvement in the business of the companies active in the field. A material portion of the Group's activity is subject to the Communications Law, regulations passed by the Ministry of Communications and the provisions of the licenses granted the Group by the Minister of Communications. According to the Communications Law and the Telegraph Order, the supply of various communications services in Israel is stipulated on the receipt of a license and the allocation of frequencies for these services, and some of them are stipulated on registration on the Registry in accordance with the Registry Regulations.

In addition, the Group's activity is subject to legal provisions that regulate the relationship and the method of engagement between it and its customers. These legal provisions include, among other things, the Consumer Protection Law and the Privacy Protection Law, as well as unique legal provisions for its area of activity as detailed below.

In addition, the Group's activity is subject to general legal provisions, including antitrust law, contract law, imports and quotas, regulations, accessibility, labor law and business licensing.

21.2. **Communications Law**

21.2.1. The Communications Law

(1) According to the Communications Law, the provision of cellular services, land-based telephone services, international telephone services and internet services are stipulated on the receipt of a license from the Ministry of Communications or listing in a registry managed by the Ministry of Communications. For further details see Section 21.4 below.

(2) The interpretation and implementation of the provisions of the Communications Law, the resulting regulations and licenses are not certain and are subject to changes. In the past, disputes arose between the Ministry of Communications and the Group in this context and disputes may arise in the future as well. The Communications Law and resulting regulations grant the Ministry of Communications extensive regulatory oversight authority in all matters pertaining to the Group’s activities. The Ministry of Communications may change the Group’s licenses or the registry regulations and/or the regulatory guidelines without its consent and in a manner that may restrict the Group's freedom to manage its business and harm its operating results. Frequent changes in licenses and/or legislation, or changes made to the timetable that the Group cannot uphold, may increase the risk of not meeting the terms of the Group's licenses or the violation of legislation and accordingly, the Group’s exposure to suits and regulatory sanctions. The Ministry of Communications has the authority to impose material sanctions in the event of the violation of the licenses or laws and relevant standards, as well as the authority to cancel the licenses, in the event that the Group materially violates their terms.

(3) The Communications Law also compels the Company to operate in accordance with the guidelines of the Israeli General Security Services, which may include the demand that various officers and executives have Israeli citizenship and residence and have security classification. In addition, the Communications Law certifies the Minister of Communications to appoint a state employee with security classification to serve as observer at the meetings of the Board of Directors and its committees. Furthermore, the Communications Law states that in the event that the Israeli Government determines that the service provided by the Company is a “vital service”, the Prime Minister and the Ministry of Communications will be entitled to impose additional restrictions, including increased demands for Israeli ownership of Company shares.

(4) On October 2 2022 the Registry Regulations came into effect, by virtue of which the 76th Amendment to the Communications Law (Telecommunications and Broadcasts), 1982 ("**the 76th Amendment**") was passed. This amendment, which was designed to decrease the bureaucratic burden and lower entrance barriers into the market, constitutes a fundamental change in the regulation of Israeli telecom services licensing. As the registry regulations came into effect, some of the parties providing telecommunications services prior to the 76th Amendment, were transferred from the license regulation to the regulation via listing in the Registry. Accordingly, the services in question are provided by the Group by virtue of a license or listing in the Registry (with the exception of television services over the internet that do not require a license or listing in the Registry).[37] To the best of the Company's knowledge, the Ministry of Communications conducts organized mapping of the provisions in the licenses in order to match the license and Registry regulations as needed.

21.2.2. <u>The Telegraph Order</u>

The Telegraph Order regulates the use of the electromagnetic spectrum and applies, among other things, to the use the Group makes of radio frequencies as part of its infrastructure. The establishment of a system that makes use of radio frequencies and its activation, are subject in accordance with the Telegraph Order to the issue of a license, and the use of radio frequencies is subject to the assignment and allocation of a suitable frequency. According to the Telegraph Order and resulting regulations, licensing fees and fees for the designation and allocation of frequencies are charged. In light of the current shortage of radio frequencies for the public's use in Israel (among other things due to the allocation of multiple frequencies for security use), the Ministry of Communications limits the number of licenses issue for the use of frequencies, and provides incentives for the efficient use of frequencies. Thus, in light of the shortage of frequencies as noted, the Ministry of Communications allows the sharing of cellular networks between MNOs, including shared use of operator frequencies (and the Joint Corporation operates within this framework).

According to the Telegraph Order and resulting regulations, the Company is required to make fixed monthly payments for the strip of frequency in its possession (in this section – "**the Frequencies Fees**"). Following and in

[37] In this matter note that the Company is listed in the Registry as a registered content provider in accordance with the Broadcasts Distribution Via Digital Broadcasting Stations Law, 2012.

connection with the 2020 Tender (as defined in Section 13.5.2 above), subject to certain conditions and a limited period of time, the Telegraph Regulations were revised in such a manner that they established an arrangement for the decrease in frequency fees for existing frequencies ("**the Discounts Arrangement**"). According to its terms, the Discount Arrangement applicable to the Company is expected to end over the course of October 2024. The Company examines its steps in connection with the conclusion of the Discounts Arrangement. Inasmuch as the Discounts Arrangement is not extended, or some other arrangement is made, the Company is expected to be likable for frequency fees at sums higher than the sums paid today, to a yearly total of NIS 34 million linked to the Consumer Price Index for the conclusion of the Discounts Arrangement.

21.3. **Rate Control**

21.3.1. Reciprocal connection fees – the reciprocal connection fees (meaning payments that will be paid by mobile operators, wireline operators or international operators to complete calls on the network of some other operator, or for the transfer of SMS messages between cellular operators) between communications operators are subject to supervision. In June 2022 the Minister of Communications decided to amend the Communications Regulations (Telecommunications and Broadcasts) (Payments for Reciprocal Connections), 1982. Within the framework of the amendment, an outline was set for the gradual decrease of reciprocal connection fees in calls ending on the networks of a cellular operator and a domestic operator, in such a manner that the decrease in these rates began in June 2023 ("**the Determining Date**" and "**the Decrease Outline**"), as the case may be). According to the Decrease Outline, as a rule, the maximum reciprocal connection rates of calls will be reduced in two pulses across a period of 36 months from the determining date, at the conclusion of which each operator will bear the costs and as a rule, there will be no transfer of payments for reciprocal relations in connection with call minutes. Regarding international calls, the supervision was lifted from the completion segment of incoming international calls, and outgoing international calls shall undergo the gradual decrease outline as noted above.

The Company estimates that the application of this change outline is not expected to have a material impact on the Group's operating results.

This Company assessment constitutes forward-looking information, as defined in the Securities Law. The Company's estimate is based on the average scope of the movement of minutes (incoming and outgoing) of

Company customers against various operators and call destinations (mobile or land-based). The assessment in question might not be realized or be released in a different manner inasmuch as the parameters noted above change in the future, among other things in light of changes in customer usage patter and/or legislative or judicial intervention as known on the report's publication date*[38]*.

21.3.2. Hosting services fees – in accordance with the Communications Law, in the event that a hosting and hosted operator reach an agreement on the conditions for providing hosting services, whether via domestic MNO roaming or hosting service for MBNO, the Minister of Communications may become involved in the terms of the agreement, including by determining the price that will be charged for the services.

In addition, the Ministry of Communications may issue instructions regarding the rates of communications services in the case of a non-reasonable price or a payment that raises concerns of harm to competition. These directives may be based on a calculation of cost plus reasonable profit margin, on the basis of reference points of comparison with other license holders, similar services or connectivity rates in other countries. In addition, the Minister of Communications is certified to issue directives regarding the separation of payments for certain telecommunications service from the payment for a collection of services. In addition, the Group's licenses feature types of payments an operator may charge, and there are specific arrangements for certain services. Terms and proceeds that do not benefit the Group may lead to a material negative impact on its operating results.

21.4. **The Group's Communications Licenses**

In recent years, various changes have come into effect in the Group's licenses, which impacted the Group's behavior, its expenses and investments, including the Group's conduct with its customers, the Group's investments in its communications networks and increasing competition in the market[39].

21.4.1. General License to Provide MNO Services

(1) The Company operates in the field of cellular communications by virtue of a general license for the provision of mobile network telephone services

[38] In December 2022 a petition was filed before the High Court of Justice the key remedy in which was cancelling the outline for decreasing reciprocal connections payments. This remedy was rejected in a decision from September 2023.

[39] For details on the 76th Amendment and the changes in the format of regulation in the communications market see Section 21

using the cellular method[40] ("**the MNO License**") which is in effect until February 1 2032, which establishes terms, obligations (such as the obligation to provide cellular services in the State of Israel to any subscriber interested in them) and restrictions regarding the Company's activity, that of its officers and shareholders holding it at various rates. In accordance with the terms of the MNO License, in the event that the Company meets the terms of the MNO License and the requirements of the law, and invests in improving service and its cellular network, the MNO License may be renewed by the Ministry of Communications for additional periods of ten more years each time. The Company has also been given a license to provide cellular services in the Judea and Samaria region that will be in effect until 2032, which includes the terms of the MNO License.

(2) The Ministry of Communications has changed in the past and may change in the future, terms in the MNO license without the Company's consent and in such a manner that may limit its ability to manage its business and hurt its operating results. No certainty exists that the Company's MNO license will be renewed by the Ministry of Communications. Inasmuch as the MNO license is renewed, it may be renewed under different conditions.

(3) **The following are key terms of the MNO License:**

a. The Company's MNO License may be cancelled, suspended or restricted by the Minister of Communications and the certified party in accordance with the Telegraph Order, among other things, in the following cases: a change needs to be made to the license to ensure the level of services provided in accordance with it; violation of a material condition of the license; one of the Company's executives or directors has been convicted of a disgraceful crime and continues to serve in their position; or the Company's aggregate equity, along with the aggregate equity of its shareholders each of whom holds 10% or more of its stock capital, has dropped below $200 million[41]; a violation of an obligation according to which the Company, a Company officer or anyone holding over 5% of its means of control, with the exception of a Company interested party that is a mutual fund, insurance company, investment company or pension fund ("**Institutional Investor**") does

[40] The MNO License, as amended from time to time, was issued to the Company by the Ministry of Communications on June 27 1994.

[41] As of the report date, the Group is in compliance with its equity obligations.

not hold, directly or indirectly, over 5% of the means of control in Bezeq or in some other Israeli cellular operator, or serves as an officer in one of the Company's competitors (subject to exception requiring the advanced approval of the Ministry of Communications). Note that in March 2022, the MNO License was amended so that an Institutional Investor who is a Company interested party may also hold up to 10% of the means of control of Bezeq or some other MNO operator under certain conditions (in lieu of holdings at a rate of up to 5% prior to the amendment of the license) without the Minister's approval being needed, and according to a written request, the Minister shall be entitled to permit an institutional investor who is Company interested party to also hold up to 25% of the means of control in Bezeq or some other MNO operator under certain conditions (in lieu of holding up to 10% prior to amending the license);

b. The total holdings, direct or indirect, of the founding shareholders or their alternatives (as defined in the license[42]) shall be no less than 26% of each of the means of control in the Company (and in this regard, "means of control" means the right to vote in the Company's General Meeting or in a parallel body in some other corporation, the right to appoint a director of CEO, the right to participate in the corporation's profits as well as the right to share the balance of the Company's assets after clearing its debts following liquidation)[43]; the total holdings, direct or indirect, of Israeli elements (as this term is defined in the MNO License[44]), included among the founding shareholders or their

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[42] "**Founding Shareholders or their Alternates**" – Koor Industries Ltd. (a company fully owned (100%) by DIC) as well as Mega Or Holdings Ltd. (which holds 29.9% of DIC's issued capital).

[43] In this regard, note that on September 19 2023, the Communications Order (Telecommunications and Broadcasts) (Determining Vital Service Provided by Bezeq – the Israeli Communications Company Ltd.) (Amendment), 2023 ("**the Amendment to the Communications Order**", respectively), came into effect to amend the Communications Order (Telecommunications and Broadcasts) (Determining Vital Service Provided by Bezeq the Israeli Communications Company Ltd..), 1997. According to the Amendment to the Communications Order, Bezeq will be allowed to determine, among other things, that a Bezeq controlling shareholder will be able to, subject to receiving the approval of the Prime Minister and Minister of Communications after consulting with the Minister of Defense, to transfer means of control to another if as a result of the transfer they will cease being a controlling shareholder (this alongside an additional amendment according to which an option will be added to a Bezeq controlling shareholder to replace the Israeli citizenship requirement with directives from the General Security Service. For details regarding the Israeli requirements at the Company see this section below).

[44] "**Israeli Element**" – for an individual – anyone who is a citizen and resident of the State of Israel; (b) regarding the corporation - a corporation who has incorporated in Israel and is controlled by an individual who is an Israeli citizen and resident, directly or indirectly, so long as indirect control is only through a corporation incorporated in Israel, one or more. However, in the matter of indirect holding, the Prime Minister and Minister of Communications approve holding via corporation not incorporated in Israel, so long as that corporation does not hold Company shares directly, and if they have been convinced that this does not harm the goals of this section. As of the publication of the report, Meg Or Israel Ltd. serves as the Israeli factor.

alternatives, no less than 5% of the total issued share capital and from each of the means of control in the Company[45]; at least 10% of the members of the Company's Board of Directors have been appointed by Israeli elements; and a majority of the Group's directors have Israeli citizenships and are Israeli residents.

c. The Company, an officer in it or anyone holding more than 5% of the means of control in it shall not be a party to any arrangement with Bezeq or some other Israeli cellular operator, which were intended to or may decrease or limit competition in the cellular field.

Additional conditions included in the MNO License include, among other things, that:

d. Purchasing (by a person themselves along with a relative or with someone who works with them on a regular basis) or the transfer, directly or indirectly, in one transaction or more, of means of control at a rate of 10% of more in the Company or which may transfer the means of control in it, including by creating a lien by Company shareholders or by a shareholder in a Company interested party, in such a manner that realization of the lien will lead to a change in ownership of 10% of more of any means of control in the Company, requires the advance approval of the Minister of Communications[46]; for the purposes of the MNO License, "control" means the ability to direct the Company's activities, whether directly or indirectly, including an ability deriving from the Company's bylaws, by virtue of an agreement, whether written or oral by virtue of holdings means of control in some other corporation, and with the exception of a capability deriving solely from the fulfilment of the duties of a director or some other Company officer;

e. For the full duration of the operating period, the Company needs to enter into agreements with a MNO network equipment manufacturer that include, among other things, an agreement to transfer knowledge and an agreement that ensures the supply of parts for network

[45] In July 2020, the MNO License was amended such that the requirement for a minimum holding of 5% of the capital issued and from each of the means of control by Israeli entities) who are among the founding shareholders or their alternates, and for the appointment of at least 10% of the members of the Board of Directors by such Israeli entities, would be canceled, upon the receipt of alternative instructions to the Company from the General Security Service. As of the publication of the report, the Company has not received such instructions.

[46] No advance approval is needed to create such a lien if the encumbrance agreement includes a reservation according to which the lien cannot be exercised without the advance approval of the Minister of Communications. The Company's other licenses includes similar prohibitions.

equipment for a period of at least seven (7) years; the Group needs to act to perform reciprocal connectivity of the network to other public communications networks in Israel, under egalitarian terms and with no discrimination; the Company must avoid prioritizing the provision of infrastructure services to a license holder that is an affiliated company (as this term is defined in the relevant regulations) over some other license holder;

f. The license details the types of payment the Company is entitled to charge from its subscribers, procedures and certain requirements for charging and billing subscribers, mechanisms and rules for determining and raising rates, as well as the reports for which notice must be given to Group customers prior to changing rates. The License also determines the Minister’s authority to intervene in rates, in certain circumstances;

g. The license requires that the Company meet a minimal standard of customer service (which includes measurable parameters of response times), including operating service centers, maintaining a certain service levels of the network (both in terms of network coverage and in terms of performance), protecting the privacy of the service recipient as well as certain restrictions and requirements pertaining to the process and documenting sales and marketing to Company customers, and thus compelling the Group to invest in personnel in call centers and invest in equipment and supporting technology.

h. The license establishes restrictions on the sale, rental or mortgage of any of the assets used to carry out the license, without the advance consent of the Minister of Communications.

i. The Group is required by the license to take out insurance that will cover its cellular activity. In addition, the license includes provisions dealing with the Group's legal liability for any loss or damage caused as a result of the construction, existence, maintenance and operation of its cellular network, to any third party. The Group also undertook to indemnify the State for any monetary liability imposed on the State in the event of such loss or damage. To guarantee the Group’s obligations in accordance with the license, the Group deposited bank guarantees (at negligent sums) in favor of the Ministry of Communications. In the event of the violation of the terms of the MNO license, the guarantee may be forfeit;

j. The Company is required to fulfil the following additional conditions; adoption of a business continuity plan and a disaster recovery plan, as well as a plan for managing defenses against cyber events. For further details see Section 21.9 below.

k. The Group is required to provide the Ministry of Communications with information and reports upon request, as well as detailed yearly reports on various aspects of the Group's activity.

21.4.2. <u>The Consolidated License</u>

(1) The Group provides internet services (broadband infrastructure and access services) and mobile and international telephone services under a consolidated license. This license will be in effect until 2026 but may be extended by the Ministry of Communications by additional periods of up to 10 years. As part of the terms of the Consolidated License, the Group is required to deposit bank guarantees (at negligible sums) in the hands of the Ministry of Communications. As a rule, the provisions of the Consolidated License are similar to the Group's MNO License, described in 21.4.1above, subject to a number of changes, including a demand for a minimum stake of 20% of the Group's stock capital by Israeli elements. At the same time, the Minister of Communications may waive such a requirement in the case that the holder of the consolidated license for telecommunications services is controlled by a holder of a general license (as is the case with the Group).

(2) IBC holds a general unique (infrastructure) consolidated general license, which features similar provisions.

(3) In addition, the Group holds a license parallel to the consolidated license described above for the Judea and Samaria region (regarding the license to provide telecommunications services granted the Cellcom Partnership in effect until 2026). These licenses include terms that are generally similar to those in the MNO license described above.

In the event that the Group does not meet the requirements of the terms in its licenses or in the provisions of the Registry Regulations, it may face significant sanctions, which may include the suspension or cancellation of its licenses. In addition, in accordance with the terms of the Communications Law, the Ministry of Communications may impose monetary sanctions on the Group for violations of the terms of the MNO license or the Communications Law[47].

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[47] The sum of the sanctions will be calculated as a percentage of its revenues and in accordance with the scale of the severity of the violation, and therefore its scope may be significant. The maximum sanctions for violations that may be imposed on the Company is (approximately) NIS 1.6 million plus 0.225% of yearly revenues in the year prior to the violation but no more than twenty percent of its yearly revenues.

21.4.3. The Registry Regulations

(1) For details on the 76th Amendment and the Registry Regulations see Section 21.2.1.(4) above.

(2) Until October 2022, Golan provided cellular services (MVNO) as well as international call services (international carrier) through a fully-owned subsidiary, by virtue of a consolidated general license to provide telecom services granted each of them. As the Registry Regulations come into effect, these services were provided by virtue of these companies being listed on the Registry, and from this date onward, Golan markets cellular and domestic operator services within the framework of the Group's licenses. For details on the 76th Amendment see Section 21.2.1.(4) above.

(3) The Group is included in the registry in connection with the supply of land-based communications services (broadband infrastructure services – transmission), as well as in connection with the activity of the joint corporation.

21.4.4. "Kosher Line" Services Migration Decision

In May 2022, a decision was made by the (previous) Minister of Communications on "lifting competitive barriers in the Koshr Line market". This decision established, among other things, that a subscriber using a Kosher Line can migrate with their number to any MNO license holder and to any plan offered by an MNO license holder, without being dependent on the telephone number allocated them for use or the MNO end equipment in their possession. In addition, it was decided that an MNO License holder shall be entitled to offer a rates plan in such a manner that service in it will only be provided using MNO end equipment the characteristics of which have been limited or which have been blocked at the request of a subscriber, so long as that plan is also offered using MNO end equipment that has not undergone such restrictions. In July 2022 the Supreme Court issued an injunction within the framework of a petition filed, suspending the Minister's decision from coming into effect. In light of the announcement by the (incoming) minister, according to which he was studying the issue as a whole and the options in the matter of the suitable regulation process and its contents, including the option of amending legislation as needed, the hearing on the petition in question was postponed. According to an update from the Minister, he chose to anchor the "Kosher Line" service, and its unequal characteristics, in legislation. In light of the above, at this stage the Company cannot assess the chances of harm to its operating results, and their scope.

21.5. **<u>Provisions in the Field of Cellular Communications</u>**

21.5.1. <u>Establishing Base Sites</u>

(1) **General**

a. In order to ensure and improve coverage for transmission and broadcasts of the wireless network for the Group's customers, the Group is dependent on base sites deployed across the country. The regulation of the deployment of the base sites, their construction and the required approvals, are mainly anchored in the National Outline Plan for Communications – TMA 36 – Part A – Small and Minute Broadcast Facilities ("**TMA 36**"), in the Planning and Construction Law and in the Radiation Law. Regulation of the deployment of wireless access facilities, which are base sites with smaller dimensions, which were built by the end of 2021, was mainly regulated in the Communications Law, the Planning and Construction Law and the Radiation Law.

Construction of base sites requires permits from various government bodies and from related parties, including the receipt of a building permit by virtue of the Planning and Construction Law issued by the various planning authorities, including the Planning and Construction Committees (and this inasmuch as no exemption has been given from the building permit), as well as additional approvals from various bodies and elements, including approval from the Civil Aviation Administration (in most cases), approval from the Israel Defense Force (in some cases) and additional detailed approvals, as the case may be. In addition, permits must be received from the Radiation Supervisor.

The Group sometimes faces difficulties in receiving permits for the construction of sites, mainly from local authorities. The construction of a base site and its activation without the required permits or not in accordance with the terms of exemptions from permits or not in accordance with the terms set in the permit given, constitute a criminal violation. Failure to receive the required approvals and permits may require a halt in the activity of the relevant base sites or their transfer to alternate locations that are inferior in terms of network requirements, which may harm the quality and coverage of the cellular network. The Group operates on a regular basis to secure the required permits, and as needed to find alternate locations for its sites.

b. In November 2021, legislative amendments were made within the framework of the Economic Policy law, 2021 (the Arrangements Law) in the matter of the deployment of advanced communications infrastructure in Israel and reducing exposure to non-ionizing radiation and within this framework changes were made to the previous regulation in the matter of exemptions for permits for the construction, replacement or additions to certain cellular sites and including cellular sites within the definition of national infrastructure in order to make the process of deploying communications infrastructure easier (hereinafter: "**2021 Permit Exemption**").

c. Activation of additional sites and facilities without the required permit or not in accordance with the terms set in the permit issued or in the terms of the exemption from the permit, may expose the Group and its officers to civil suits and/criminal and administrative proceedings. In addition, the sites and facilities may be subject to demolition orders and breach of contract claims.

   As of the publication of the report, a very small portion of the Group's base sites operate without a building permit. It's possible that the Group operates a significant number of sites in a manner that is not fully compatible with the building permit by virtue of which they were built, while for sites like these permits were received from the Radiation Supervisor on the levels of radiation there.

   Criminal and administrative legal proceedings were conducted against the Group, within the framework of which claims were raised in the matter of the illegality of the actions of a small portion of the Group's base sites, due to the alleged absence of permits in accordance with the Planning and Construction Law, or due to their construction in alleged deviation from the permit given them.

(2) **Building Permits**

a. <u>TMA 36</u>

   TMA 36 anchors, among other things, directives for the construction of base sites, in such a manner that coverage will be possible for broadcasting and receiving wireless communications throughout the country, while avoiding radiation hazards and minimizing the impact on the environment and the landscape. MA 36 established the considerations that needed to be taken into account by the planning authorities when issuing building permits for the base sites. In addition, TMA 36 establishes the cases in which the public needs to be informed on the building permit requirements before it is given, in order to allow the public to file suitable objections in accordance with the terms of the Planning and Construction Law.

In accordance with the terms of the 2021 Permit Exemption, the approvals needed in accordance with the permitting plan, such as TMA 36, must be received for a cellular broadcast facility located in accordance with the terms of the exemption, however, no permit is needed from the local committee.

If changes occur in TMA 36 that include restrictions and additional requirements in the process of building and operating sites, this may have a negative impact on the Group's ability to build new base sites, make the process of licensing sites more cumbersome and expensive, and mat have a negative impact on the Group's existing network and delay its future deployment.

b. Exemptions from Building Permits

Wireless access facilities that, as noted, were built by the end of 2021 were exempt from building permits, so long as they had been built in accordance with the terms set in the Communications Law and in Section 266C of the Planning and Construction Law and resulting regulations ("**the Exemption**").

Starting January 2022 the 2021 Permit Exemption replaced the exemption from a permit for a wireless access facility on a cellular network so that as of that date, wireless access facilities could not be built on new cellular networks based on the exemption from a permit for a wireless access facility, however, facilities may be built with an exemption from a permit in accordance with the terms of the 2021 Permit Exemption[48]

c. The inability to rely on the receipt of an exemption from the need to secure a building permit for a facility in accordance with the terms of the 2021 Permit Exemption or the imposition of a material restriction on the Group within the framework of the exemption and/or its implementation, disassembly of wireless access facilities and cellular sites due to reasons that are not under the Group's control, the objection of local planning and construction authorities to granting the required permits and approvals, may have a negative impact on the

[48] This may not impact the validity of wireless access facilities built while the wireless access facility exemption was in effect.

Group's ability to receive permits for these sites and/or to construct them with an exemption from a permit, have a negative impact on the scope, quality and coverage capability of the network (particularly in urban areas), on the Group's ability to continue marketing the Group's products and services in an efficient manner and which may have a material negative impact on Group's operating results and economic status.

d. The Group provides repeaters and femtocells for subscribers seeking a solution to weak reception problems inside buildings, some of which require a specific permit and some require a type permit from the Ministry of Environmental Protection, in accordance with their radiation level. The Group makes sure that each repeater operates in accordance with the parameters set in the relevant site permit. Uncertainty exists in the question of whether the installation of repeaters of various types and femocells requires the receipt of a building permit.

In addition, the Group builds and operates microwave facilities as part of its transmission network, which serves both the cellular network and the need to provide fixed line communications services. Most types of microwave facilities are exempt from the receipt of permits from the Ministry of Environmental Protection (as a result of low output) or require a general permit relative to their radiation levels.

Based on an opinion the Group received from its legal counsel, the Group has not requested nor received building permits to install these facilities on rooftops. Note that the repeaters installed on rooftops constitute a small portion of total repeaters installed by the Group.

If it is decided that the installation of repeaters requires the receipt of a building permit, the Group shall examine the economic feasibility of treating the request for permits for existing repeaters against the option of removing them as well as the feasibility of installing additional receivers.

In addition, if it is decided that the installation of microwave facilities on rooftops requires a building permit, this may have a negative impact on the Company's ability to receive radiation permits for these facilities and to install additional facilities, and it may impact the scope, quality and coverage of the Group's transmission network as well as harm the Group's ability to continue market fixed line communication services to business customers (based on the Group's independent network) in an effective manner.

(3) **Indemnification Obligation by Virtue of the Planning and Construction Law**

In accordance with the Planning and Construction Law, the Local Planning and Construction Committees must demand, as a condition for issuing a building permit for a base site, a letter of indemnification from compensation claims in accordance with Section 197 of the Planning and Construction Law.[49] The 2021 Permit Exemption also includes a requirement to follow these instructions. The period of time in which a compensation claim may be filed in accordance with the Planning and Construction Law is one year from receiving the building permit for the site or six months from the construction of the site, whichever is later, with the Minister of the Interior certified to extend this period. As of December 31 2023, the Group has deposited an (accumulated) 542 letters of indemnification to issue building permits or exemptions.

As a result of the demand to deposit letters of indemnification in the hands of the Local Committees for Planning and Construction, the Group may disassemble or relocate base sites to less suitable locations or not build certain base sites inasmuch as they reach the conclusion that the risk in providing such letters of indemnification exceeds the benefits of building those sites. The Group's decision on disassembling or transferring such base sites, if passed, may impact the quality of cellular services at those locations and harm the national deployment.

(4) **Permits in Accordance with the Radiation Law**

The construction and operation of base sites, access facilities and other broadcasting facilities is subject to the Radiation Law. For details on the Radiation Law and the permits required as a result see Sections 20.2 and 21.5.1. above.

21.5.2. Information Regulations on Non-Ionizing Radiation

Cellular services are provided using end equipment emitting non-ionizing radiation. The Radiation Regulations, include, among other things, announcing obligations. These regulations and the resulting booklet note, among other things, the maximum radiation level allowed for end equipment. For further details on the restrictions by virtue of these regulations, see Section 20.4 above.

[49] Section 197 of the Planning and Construction Law states that a land owner is entitled, in principle, for compensation from the Local Committee for Planning and Construction, for the impairment of their land as a result of the approval of a plan applicable to their land or a bordering area, all in accordance with the terms of the Planning and Construction Law.

21.5.3. Network and Site Sharing Agreement

The network sharing agreement includes active sharing of frequencies by mobile network operators (MNO), will be possible between operators at least one of whom does not own an fully deployed mobile network and is stipulated on certain conditions, including: (a) other operators will be able to join under conditions similar to those given 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 remaining joint operators; (c) the shared radio network needs to be operated by a joint body that will be held in equal shares by the participating operators, which will be required to receive a license from the Ministry of Communications when the joint network uses frequencies allocated to the joint operators; (d) the radio components of the joint network shall be held at an equal rate by the joint operators; and (e) each of the joint operators shall have the effective usage right of the passive infrastructure of the other joint operators, including in the case of the conclusion of the agreement.

In February 2021 the Ministry of Communications decided to allow all cellular operators to cooperate via domestic roaming or an MOCN configuration in certain peripheral areas and at a limited number of sites. As of the publication of the report, the cooperation in question is at negligible levels. The Group estimates that the change in question will not be able to impact the Group's results in light of the limited possible cooperation.

For further details on the Group's network sharing and hosting with Wecom, see Section Sharing Agreement **with Wecom**

For details on the Group's passive infrastructure cooperation agreement with Pelephone, Partner and HOT Mobile, see Section 23.3 below.

21.6. **Licenses in the Field of Terrestrial Communications**

21.6.1. Fiber Optic Network

The Communications Law grants operators certain authorities in deploying optic fiber network and exempts them from the requirement to secure building permits (including assisting structures). The deployment of an optic fiber network in a public area is subject to advance notice and coordination with other infrastructure owners. The deployment of optic fiber infrastructure in public areas is subject to the consent of the property owner. For details on the use of the infrastructure of other operators within the framework of the wholesale market see Section 21.6.2.(1) below.

In December 2020, the Communications Law was amended in such a manner that updated the deployment obligations of optic fiber and the service supply obligations of operators with a general license – owners of their own infrastructure (who had earlier been required to perform a universal deployment of any network they deploy), and established incentives to encourage the deployment of infrastructure in areas in which no deployment obligation exists, in accordance with economic feasibility tests. The key points of the Amendment are as follows:

(1) Bezeq will not be subject to universal deployment requirements in all matters pertaining to the deployment of optic fiber infrastructure, and in accordance with the option given it, it informed the Ministry of the areas in which it seeks to perform the deployment, and in these areas Bezeq is required to provide service to all homes within 6 years; HOT will also not have a universal deployment obligation in all matters pertaining to the deployment of optic fiber, from the date Bezeq was given the deployment obligation as per the licenses. At the same time, regarding HOT in July 2020 the Minister of Communications was given a minimal deployment obligation at a rate of 30%, as well as an obligation to meet a 1/1 deployment ratio between the periphery and center of Israel in the event that it chooses to deploy an ultra-wideband network not based on its existing access infrastructure;

(2) The State of Israel shall hold tenders to subsidize the deployment of optic fiber by Bezeq's competitors in areas in which Bezeq chooses not to deploy optic fibers ("**Incentivization Areas**"). Neither Bezeq nor any affiliated corporations may take part in the tenders. In March 2022 and February 2023 the Ministry of Communications published the results of the incentivization tender, and all of the companies that won the tender have an obligation to complete the deployment obligation and provide services in the service area they won until the determining date.

(3) The Minister of Communications may establish a reduced rate for the use of existing Bezeq passive infrastructure in the incentivization and in July 2022, the Minister employed his authority to set a reduced rate for the use of existing Bezeq infrastructure in the incentivization areas, and in areas beyond the incentivization areas (an area that is not an incentivization area and is not one of the Bezeq deployment areas).

(4) Subsidization for deployment in the incentivization areas shall be financed by imposing an additional mandatory payment at a rate of 0.5% of the latest yearly revenue less reciprocal relations payments and use by certain communications license holders in Israel (including Bezeq) (and including

the subsidiaries of the license holders in question, in certain cases), the latest yearly revenue of whom exceeded 10 million NIS, starting 2021 and up to the date in which the deployment obligation was set for each of the incentivization areas ("**the Incentivization Fund**").

In the announcement by the Ministry of Communications from July 2023 (which came prior to the publication of the Communications Order as noted below), it was noted that the incentivization tenders had led to an obligation to deploy in 99.5% of the State of Israel, and in addition, based on a professional examination conducted by the Ministry, there was a high level of probability that completion of the deployment would continue to a rate of 100%. Subsequently, on July 31 2023, the Communications Ordinance (Transmissions and Broadcasts) (Rate of Annual Payment to the Incentivization Fund for 2023) (Transitional Provision), 5783-2023, was published in the Official Gazette, which established, for 2023, the rate of payments payable by obligated entities (including the Company) to the incentivization fund will be 0% of their aforementioned taxable income. The enactment of the ordinance in question resulted in savings on the Company's expenses in 2023 in the amount of approximately NIS 18 million (before tax).

(5) Neither Bezeq nor any affiliated corporation may deploy optic fiber in incentivization areas for 5 years from the date on which the deployment obligation was set in the winning tender, with the exception of deployment for business customers for which it may deploy in this period as well. At the same time, at Bezeq's request the Minister of Communications may revise its original deployment obligation by a rate of up to 10%, so long as no money has yet been allocated from the money in the incentivization fund to that incentivization area; at Bezeq's request, in October 2022 the Minister of Communications allowed them to deploy optic fibers in areas in addition to those set in its license.

(6) The amendment may not prevent the holder of a license who is not Bezeq or a corporation affiliated with it to deploy a fiber optic network or provide telecom services over it in Bezeq's deployment areas, as well as in an incentivization area for which no money had been allocated to it from the incentivization fund.

In June 2020 the Ministry of Communications decided that when providing internet access services via optic fibers to private subscribers, license holders would not be able to offer subscribers under different conditions or at a different rate, as dependent on the proposed infrastructure.

In Juley 2020, the Ministry of Communications determined that a holder of a general license to provide land-based domestic telecommunications services interested in deploying an optic fiber network in an existing building (five apartments and more), must offer the other license holders to make shared use of the fiber network that will be deployed in the building and bear the costs of establishing the infrastructure according to their relative share. It was also ruled that the fiber infrastructure deployed in the building can be shared in the future for at least one additional consolidated license holder beyond the operators who agreed upon joint use.

21.6.2. Wholesale Market Development

(1) In 2012 the Ministry of Communications published a policy paper on the subject of the wholesale market in fixed line communications services, the key points of which are (1) the establishment of an effective wholesale market of access services to communications services; and (2) a gradual cancellation of the structural separation in the Bezeq and HOT groups and its replacement by accounting separation and changing the supervision method of Bezeq's wholesale prices, so that maximum rates will be set. This, instead of the method it practiced until them that establishes fixed rates, that depend, among other things, on the development of the wholesale market, the state of the competition in the market, and regarding television services – a reasonable possibility of the supply of basic OTT package services by suppliers with no national fixed line communications infrastructure.

As per 8.1 above, in 2015 the wholesale market was officially launched in Israel in the field of internet infrastructure and, to a degree, also in the field of use of certain physical infrastructure by operators who are not infrastructure owners. The maximum rates for wholesale fixed line communications services provided by Bezeq (on its copper infrastructure), were set in the Communications Regulations (Telecommunications and Broadcasts) (Use of Public Telecommunications Network by Domestic Provider), 2014, and the maximum internet infrastructure service rates on the Bezeq fiber optic network, were determined in August 2020 in the Communications Regulations (Telecommunications and Broadcasts) (Use of Public Telecommunications Network by Domestic Provider) (2nd Amendment), 2020.

According to the Communications Law, all terrestrial operators including the Group have certain wholesale obligations, according to which all terrestrial operators need to provide all of the other operators with access to their passive networks (with the exception of IBC's passive infrastructure on the IEC's infrastructure), according to terms discussed by the parties (with the exception of Bezeq and HOT, the terms of which are determined by the regulator).

In addition, the wholesale market was supposed to include wholesale terrestrial telephone services starting May 2015. As of the publication of the report, the Group has not used the land-based telephone services within the framework of the wholesale market.

In June 2020 the Ministry of Communications adopted a proposal by HOT for the voluntary reduction of the whole rates of the internet infrastructure services in its network, including a rate revision mechanism. Over the course of January 2024 the rates were updated for 2024.

In December 2022 the Ministry of Communications published the demand forecast indices for data capacity on the Bezeq network, used to determine wholesale market rates on the copper infrastructure[50]. These indices led to an increase in wholesale market rates in the copper infrastructure for 2023. Over the course of January 2024 the rates were updated for 2024 at the rate of increase of the Consumer Price Index. In addition, the Ministry published an update on wholesale market rates in a fiber infrastructure over the Bezeq network that increased relative to 2022, amortized by Bezeq within the framework of understandings achieved between it and the Ministry of Transportation in the matter of the approval of its IRU agreement with Partner (for details on this agreement see Section 81.2..(1) above).

(2) In 2022 the Ministry of Communications published a hearing (intended to replace previous hearings from 2014 and 2017), proposing a new format for examining a margin squeeze intended to prevent competitive harm to the wholesale market activity on advanced networks fiber optic based telecommunications network) that exists when an infrastructure holder

[50] In a hearing published by the Ministry of Communications in December 2023, it was noted that no more use would be made of the model that weighs (among other things) the demand forecast indices as noted, to determine the wholesale market rates for 2024.

holding market power who provides wholesale services to its competitors, reduces the margin between their wholesale rate and the competitors', so that the economic feasibility of competitors without infrastructure of purchasing wholesale inputs and marketing wholesale services to consumers, is harmed. The hearing proposes maintaining a margin between the wholesale price and the wholesale cost of 25% above the wholesale cost. If this margin does not exist, the Minister of Communications can instruct that such a margin be created by decreasing the wholesale market rate for a period of one year. In March 27 2023 the Minister of Communications decided that the format for examining the decreased margins in an advanced land-based network, would be the format published in the hearing recommendation, along with a number of changes detailed in the decision. The companies to which the test will apply shall be Bezeq and the suppliers winning the deployment of advanced networks in incentivization areas.

(3) For details on Bezeq's obligation not to require the payment of internet suppliers for the consumption of internet access services at a certain scope deriving from TV broadcasts over the internet, see 21.6.3 below.

21.6.3. <u>OTT Multi-Channel Television Services Regulation</u>

(1) As of the publication of the report, OTT services are not regulated in Israel. In the event that legislation is adopted that requires that the Group make additional investments and/or impose restrictions on OTT services by the Group and/or restrictions on the Group and not on other OTT suppliers, this may have a negative impact on the Group's activities and on the Group's OTT services.

(2) On July 24 2023 the Ministry of Communications published the Communications Law Memorandum (Broadcasts), 2023 for public remarks. The bill was intended to amend legislation and update the array of obligations and rights borne by all players active in the field of audiovisual content. The Broadcasts Law Memorandum includes a variety of arrangements and mechanisms, including:

a. The establishment of a new authority instead of the Cable and Satellite Council and the Second Authority that will be responsible for regulating the content of audiovisual content.

b. Registry listing obligations were established. Among other things, a content provider with a medium scope of activity the total yearly revenues of whom from activity as a content provider is between NIS

300 and NIS 600 million ("**Medium Content Provider**") and a content provider with a large scope of activity the total yearly revenues of whom is over NIS 600 million ("**Major Content Provider**") shall be required to be listed in the Registry of Providers.

c. Obligations were established for investment in local productions with elite content that apply to all major players in the viewing and audio content supply market in Israel – medium and major content providers, international content providers and Israeli channels that provide advertisements to the public independently. The sum of the investment shall be calculated from the yearly revenue from the supply of audiovisual content in Israel according to 2% of the revenues of a medium content provider and 4% of the revenues of a major content provider.

d. The existing restrictions on economic models in the audiovisual content market were cancelled, and some of the existing prohibitions on joint ownership were cancelled. Prohibitions applicable to traditional platforms in all matters pertaining to advertising broadcasts and the supply of new plans were cancelled.

e. Detailed arrangements were established in all matters pertaining to the supply of news content, designated registration obligation, the obligation to adopt a code of ethics for news, as well as obligation intended to prevent the exclusive provision of news content.

f. Arrangements were established regarding the provisions of sports content with significant demand from the public or cultural or national importance. In addition, obligations were established that were intended to prevent the supply of significant sports enterprises on a single content provider, obligations regarding the public access of sports enterprises with national importance or exceptional public interest. This regulation shall apply, as the case may be, to all relevant bodies in this field – rights holders, content producers, content providers providing it to the public, content providers who also hold exclusive rights.

g. Additional obligations were established, among other things, in the matter of the distribution of the content of the Israeli Broadcasting Corporation and the Knesset Channel, consumer obligations and accessibility obligations.

The Group is studying that stated in the memorandum and its implications. As this is a legislative memorandum, at this stage there is no certainty which of the memorandum's provisions, of any, will be anchored as binding legislation, and what the content and arrangements of such legislation will be, and therefore at this stage the Group cannot estimate the impact of the Group's business on the legislation and regulation that will be established as a result of the memorandum (if any).

(3) In 2014 the Antitrust Commissioner published conditions for mergers in the Bezeq Group, with the aim of making it easier to open the multi-channel television market to competition, by lowering the entrance barriers in the television field. Within this framework the Supervisor established, among other things, an arrangement according to which Bezeq would not be require internet suppliers to pay for the consumption of internet access services to a certain level deriving from multi-channel television broadcasts over the internet, and YES was prohibited from selling a basket of communications services that include television services at a price different from the separate sale of television services ("**the Factorization Conditions**"). In addition, it was decided that all existing exclusivity agreements that Bezeq and YES were parties to regarding television content that was not original productions would be cancelled, and entry into such exclusivity arrangements in the future would not be allowed ("**the Exclusivity Conditions**"). From April 2021, the Antitrust Commissioner decided to change the terms of the merger, as follows: (1) to cancel the Factorization Conditions; (2) to change the Exclusivity Conditions so that they would not apply to the purchase of foreign content but would continue to apply in all matters pertaining to sports content and local content that does not meet the definition of original productions as defined in the Supervisor's conditions. As of the publication of the report, this amendment has not had a material impact on the Group's operating results. To be clear, the factorization obligation also exists in Bezeq's license by virtue of the structural separation obligation that applies to it, even prior to the publication of the conditions by the Supervisor.

21.6.4. Regarding building permits, an exemption from building permits and the incidence of the provisions of the Radiation Law to communications facilities built as part of fixed line communications networks, see Section 21.5 above.

21.7. **Consumer Legislation**

The Group's activity is subject to legislation regulating the relationship and the method of engagement between it and its subscribers[51]. As such, the Group's activity is subject to the Consumer Protection Law and resulting regulations. Changes in consumer regulation regularly impact the activity of Group companies. In recent years, various amendments have been approved to the Consumer Protection Law and its regulations, including in the matter of cancelling transactions even after services have begun; disconnection from ongoing services; method of providing information on rates set for a fixed period; directives in the matter of repaying charges collected from subscribers not in accordance with the communications agreement plus treatment fees set in law; restrictions on collecting debts; maximum waiting time for a human response; expanding the incidence of regulation in the matter of technician visiting dates for additional cases and the establishment of a national database listing the phone numbers of consumers interested in limiting marketing contacts from operators or their representatives[52]. In addition, there are various bills before the Knesset for additional amendments to the Consumer Protection Law, which may impact, among other things, the terms of engagement and behavior of Group companies with their subscribers.

21.8. **Privacy Protection Law**

The activity of Group companies is impacted by the Privacy Protection law and its regulations in the matter of managing and maintaining databases and securing the information contained in them. In May 2018 the Privacy Protection Regulations (Information Security), 2017 came into effect, which impose various obligations on holders of databases, including obligations for establishing procedures and making risk assessments regarding information security, as well as the use of advanced security measures to protect the information.

Currently there are a number of bills to amend the Privacy Protection Law before the Knesset. These proposals include, among other things, the significant expansion of supervision and enforcement authorities held by the Privacy Protection Authority.

21.9. **Cyber Defense and Continuity of Function**

The Group provides a variety of communications services that constitute a vital national infrastructure both during routine activity and during times of emergency. The licenses by virtue of which the Group provides communications services include an obligation to

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[51] In addition to the directives set in this regard in the Group's licenses (see 21.2 above).

[52] In January 2023 an amendment to the Consumer Protection Law came into effect, as well as resulting regulations according to which the Consumer Protection Authority would establish a database featuring the phone numbers of consumers interested in restricting such marketing requests from them and an operator will not be able to make marketing calls over the telephone (including other electronic communications) to a consumer whose number is recorded in the database (with some exceptions set in law). According to the regulations on this subject, an operator may approach the database with a list of customers they wish to contact and receive the numbers from the list.

prepare to ensure functional continuity and operate in accordance with a cyber defense plan that will help protect from cyber-attacks, deal with cyber events, reduce the risks of harm to functional continuity and functional recovery in the event of a cyber event and/or an event that harms the Company's functional continuity ("**Crisis Events**"). In accordance with the Security Regulation in Public Bodies Law, 1998 and by virtue of the definition of services provided by the Group as vital services, the Group's activity in protecting its infrastructure is also supervised and controlled by the General Security Services.

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

21.9.1. Actions intended to prevent, as much as possible, the occurrence of a crisis event, including the appointment of personnel, locating and defining the threats, classifying the threats in accordance with the level of risk deriving from them, determining information security procedures, implementing preventive and revealing controls, conducting risk surveys and penetration tests, monitoring, encryption, authorization management and control, increasing worker awareness of information security guidelines.

21.9.2. Response – the work programs implemented at the Company include actions intended to prepare for the existence of crisis events, including: establishing work procedures and assimilating work processes intended to allow a fast and professional response to crisis events, establishing reporting processes on crisis events to the relevant factors as required by law and according to the licenses by virtue of which the services are provided, defining personnel responsible for dealing with crisis events, providing training for the treatment of crisis events and constant examination intended to improve and streamline the Group's preparations for dealing with crisis events.

21.9.3. Assimilating work processes for as rapid a recovery as possible from crisis events.

21.9.4. The work plans implemented at the Cellcom group for protection from cyber events and ensuring the continuity of its business activity are presented to the Company Board of Directors for approval.

Over the course of 2023 no cyber events were detected that impacted the Financial Statements of the Celcom Group.

21.10. **<u>Provisions in the Field of Labor Law</u>**

The Group comes under Israeli labor law in connection with the terms of employment of its employees, including the Minimum Wage Law, 1987, the Severance Pay Law, 1963, the Annual Vacation Law, 1951, the Working and Rest Hours Law, 1951, the Labor Law Enforcement Law, 2011 and various expansion orders in connection with the social benefits and pension deposits Group employees are entitled to.

In March 2023 the temporary order according to which the State's minimum wage was revised (the Minimum Wage Sums Increase - Temporary Order, 2015), from this date the minimum wage is updated in accordance with the provisions of the Minimum Wage Law, 1987 which state that the minimum wage shall be 47.5% of the average salary as it stands on April 1 each year. The minimum wage increased on April 1 2023 and is expected to increase again in April 2024.

21.11. For details on price controls for goods and services offered by the Group, see 21.3above.

21.12. **<u>Sanctions from Regulation Provisions – Administrative Proceedings and Monetary Sanctions</u>**

Various regulators, including the Ministry of Communications and the Judea and Samaria Civil Administration, the Antitrust Authority, the Consumer Protection and Fair Trade Authority, have the authority to impose sanctions, including significant monetary sanctions for the violation of relevant regulation. In addition, there is a bill for a similar amendment to the Privacy Protection Law, 1981. In recent years the Ministry of Transportation, the Antitrust Authority and the Consumer Protection and Fair Trade Authority have used of these authorities.

21.13. **<u>License to Provide Electricity</u>**

In July 2021, the Company received a license to provide electricity with no means of production from the Electricity Authority. The License is used to provide electricity to customers with a continuous meter (which allows offsite reading) within the framework of a joint venture for the Company and Meshek Energy – Renewable Energy Ltd. (“**Meshek Energy**”). The license in question is for a period of 5 years. In order to provide the service, the Company must engage with the system manager to purchase the required services.

In February 2022, the Electricity Authority decided to allow customers to order the installation of a smart electrical meter for pay (starting from August 2022, subject to meeting certain conditions), and thus removed a barrier that had existed in the market. The Electricity Authority also made decisions on the move to a market model starting 2024 within the framework of which license holders would be able to provide electricity with no means of production for the purchase of electricity from manufacturers using the market model, as an alternative to purchasing electricity, from Noga Electrical System Management Ltd. (“**Noga**”).

For details on engagements in a founders' agreement and engagement in agreements to purchase electricity in connection with the joint venture in question, see Section 23.4 below.

22. Material Agreements

The following is a concise description of key material agreements, the Group is a party to, or which to the best of its knowledge the Group is entitled to in accordance with, including agreements that were in effect in the period described in the report or which had influenced the Company's activity in that period.

22.1. **Investment agreement in IIF** – for details on the Company's investment in IBC, including partnership agreements with IIF, IRU purchase agreements and the services agreement with the IEC, see Section 17.1 above.

22.2. **HOT's investment agreement in IBC** – for details on HOT's investment agreement in IBC, including an agreement to purchase IRU and a services agreement, see Section 17.2 above.

22.3. **Engagements with suppliers** – for details on the Group's engagement with material suppliers, the Group is dependent on for the purpose of the purchase, operation and maintenance of communications equipment, information systems, content and end equipment, see **שגיאה! מקור ההפניה לא נמצא.** above.

22.4. **Debt and credit agreements** – for details regarding the Company's credit agreements through which the Company finances its activity, as well as in the matter of debentures issued by the Company. See Section 18 above.

22.5. **Collective agreements** – for details on the Group's collective agreements with worker committees and the Histadrut, see 14.5 above.

22.6. **Network sharing agreement** – for details on the network sharing agreement with Wecom, see Section Sharing **Agreement with Wecom** below.

23. Cooperation Agreements

23.1. **Sharing Agreement with Wecom**

Agreement regarding sharing of the 4G and 5G networks, and hosting services for the 2G and 3G networks, entered into effect in April 2017. Updates to the agreement entered into effect in March 2022 ("**the Closing Date**"), within the framework of a creditors' arrangement with Wecom ("**the Sharing Agreement**" or "**the Network Sharing Agreement**"). Wecom began operating in the cellular market in April 2018.

The Sharing Agreement with Wecom establishes the conditions according to which the shared 4G and 5G network will operate, and the condition according to which hosting services will be provided for 2G and 3G networks, and determines, among other things, the following conditions:

23.1.1. Arrangement of the use of the parties' relevant frequencies; management and operation through the joint corporation; regulation of the holding, ownership of use by parties of the active and passive components of the shared network; arrangement of future investments and the manner in which payment is made with the active components of a 5G network; arrangement of the IRU for the active components of each sharing party to the other sharing party; granting and IRU by the Company to Wecom and the joint corporation for the passive components of the shared network; arranging services that will be provided by the Company to the joint corporation as a subcontractor; arrangements for the parties' separation' and arrangements for the addition of an additional shared party. The sharing agreement includes an undertaking by Wecom to obtain, from the Ministry of Communication, an amended mobile license and the allocation of frequencies by virtue of the 2020 tender (which have been received as of the date of this report, for details see Section 13.5.1.(2).e above), and to pay the license fees, and the frequency fees with respect thereto, to the Ministry of Communication.

23.1.2. Agreement period - The agreement will be in effect for a period of 10 years after the completion date. For the circumstances in which Wecom will have the possibility to shorten the agreement period to seven years, see Section 23.1.4 below.

23.1.3. Consideration - The annual consideration which the Group will receive during the period of the agreement with Wecom includes: (1) payment for IRU to the shared network's passive components, (2) payment for Wecom's share of the shared network's active components, and (3) payment for participation in the routine operating costs of the shared network and of the Group's 2G and 3G networks, depending on the number of Wecom subscribers and their use of the shared network and the Group's 2G and 3G network. The Company estimates that the total consideration from the sharing agreement, which also includes participation in the purchasing of equipment for the shared network, will amount, during the agreement period (10 years), to a total of NIS 300-400 million. The Company estimates that the discounts specified in section 23.1.4 below, if given, will not significantly change the Company's estimate regarding the total consideration from the sharing agreement, while the shortening of the agreement, if it occurs, will proportionately reduce the total consideration.

23.1.4. Put option, loan option and call option – Clear Telecommunication Holdings Limited Partnership ("**Clear**"), Wecom's controlling shareholder after the completion of Wecom's creditors' settlement[53], was given the option to obligate Cellcom to acquire Wecom's entire (100%) share capital, during a period of three to five and a half years after the closing date, in return for a total of NIS 130 million (which may increase in certain circumstances) ("**the Call Option**")[54]. Insofar as the aforementioned Call Option, which is conditional on the receipt of regulatory approvals from the Ministry of Communication and the Competition Commissioner, is not exercisable, Clear was given the option of obligating the Company to provide Wecom with an interest-bearing loan of the same amount, against collateral, the amount of which was agreed upon between the parties, and subject to the provisions of any applicable law ("**the Loan Option**")[55]. The Company is unable to estimate whether the Call Option or the Loan Option will be exercised, and if so, whether the required approvals for its exercise will be received, and under what conditions.

In certain circumstances, in case it is not possible to exercise the call option which was given to Company, nor the loan option, Wecom will be entitled to certain discounts with respect to incremental payments which it will be required to pay the Company, and it will be entitled to shorten the agreement period by three years (to seven years). Insofar as Wecom chooses to shorten the period of the sharing agreement, as stated above, the Company was given the option of obligating Wecom's shareholders to sell to the Company Wecom's entire issued and paid-up share capital, for a total of 130 million NIS, subject the receipt of the regulatory approvals in question ("**the Put Option**"). The Company is unable to estimate whether circumstances will be fulfilled which give the right to discounts, to shorten the agreement, or to the put option, whether those rights will be exercised, and insofar as the put option is exercised - whether the regulatory approvals required for it to be exercised will be received, and under what conditions.

For details on the Group's revenues from Wecom, see Note 30d to the Financial Statements.

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53 After the completion of the creditors' arrangement, Clear holds two thirds of Wecom's stock capital, with XFONE 018 Ltd., the controlling shareholder of Wecom prior to the creditors' arrangement, holding one third of Wecom's stock capital.

54 The Company's put option is subject to the right of first refusal of XFONE 018 Ltd. ("**XFONE**") on Wecom shares. In addition, if Clear exercises the put option in question, and XFONE does not exercise its right of first refusal as noted – then Clear shall compel XFONE to sell its shares in Wecom, so that when exercising the option by Clear, Cellcom will purchase 100% of Wecom's stock capital.

55 Note that as noted by the Antitrust Commissioner in her decision, the examination she will conduct prior to the approval of the loan option is expected to focus, among other things, on the existence of another alternative to receiving credit and/or the investment of a financial body in Wecom.

The Company's estimates in connection with the comprehensive compensation in accordance with the sharing agreement, the impact of possible discounts on compensation as detailed above (if any) and the impact of shortening the agreement (if it is shortened), on the total compensation, constitutes forward-looking information, as defined in the Securities Law, which may or may not be realized or be realized in some other manner (including materially) from that described above, this, among other things, due to factors and/or influences that cannot be estimated in advance including a dependence on the number of Wecom subscribers and their use of the shared network.

23.2. **Roaming agreements** – the roaming agreements allow customers of operator A to receive cellular network services from operator B, when operator A's customer is located outside the coverage area of that operator, but is in the coverage area of Operator B (incoming and outgoing roaming services).

Through roaming agreements, the Group offers outgoing roaming services to its subscribers when staying outside of Israel and incoming roaming services for subscribers of foreign operators while staying in Israzel. As of the publication of the report, the Group has collaborations for the purpose of providing roaming services with several hundred operators in most countries of the world, based on standard GSMA roaming agreements[56].

23.3. **Passive infrastructure cooperation agreement** – on August 16 2022, approval was received from the Ministry of Transportation for a framework agreement in which the Company engaged in November 2021, according to which the passive infrastructure sharing activities at cellular sites with Pelephone and P. H. I. Networks (2015) Limited Partnership (with the latter later replaced by Partner and HOT Mobile) will be expanded. The Company estimates that the cooperation makes it easier and more efficient, to a certain degree to build cellular sites.

23.4. **Agreements Connected to License to Provide Electricity**

Following that stated in Section 21.13 above on the Group's activity within the framework of a joint venture with Meshek Energy to provide electricity to home and business customers, the Company has entered into the following agreements:

23.4.1. Engagement in Founders' Agreement

(1) On August 31 2023 the Company entered into a founders' agreement with Meshek Energy ("**the Founders' Agreement**") to establish a limited partnership ("**Cellcom Energy**" or "**the Partnership**") intended to operate in the field of marketing, sale and supply of electricity to home and business

[56] GSM – an umbrella organization featuring all cellular operators using GSM technology.

consumers (with the exception of the rural sector[57] and certain activities as agreed upon by the parties, regarding which each of the parties may operate independently). For this purpose, Cellcom Energy will work to secure a license to provide electricity with no means of production from the Electricity Authority ("**the License**")

Cellcom Energy as well as the company of the general partner of Cellcom Energy are held at equal shares (50%-50%) by the parties.

(2) In accordance with the business plan approved by the parties as part of the Founders' Agreement ("**the Business Plan**"), each of the parties shall provide the partnership, according to their relative share of the Partnership's capital, the sums of financing detailed in the business plan (including budget updates, if any, that will be approved over the course of the business plan period, which is for 5 years starting January 1 2024). This financing may be in the form of capital injection, the provision of shareholders' loans, raising credit as well as providing guarantees and securities, all in accordance with the business plan and as determined by the general partner. In addition, provisions were established for additional financing, inasmuch as will be required by the partnership as decided by the general partner, as well as a dilution mechanism for cases in which a certain party had not provided their share of the financing sums.

(3) The parties undertook, so long as they hold a 25% or greater sake in the partnership's capital, 25% or more of the stock capital of the general partner, or they will be entitled to appoint a director in the general partner, they will operate in the cooperation field through Cellcom Energy only, with certain exceptions agreed upon by the parties.

(4) In order to advance the activity of Cellcom Energy, it was agreed that the Company would provide services to the Partnership, primarily in the field of sales and customer management, within the framework of a service agreement signed between the parties; it was also agreed that Meshek Energy would sell Celcom Energy electricity from four Meshek Energy facilities (and those of related bodies) which are solar facilities featuring storage, under terms the key of which will be detailed in 23.4.2 below ("**Electricity Purchase Agreements**").

[57] "The Rural Segment" – kibbutzim and collective moshavim (including central organizations such as purchasing organizations of kibbutzim and collective moshavim), factories operating on Kibbutz or Moshav land, and corporations in which a kibbutz or moshav hold at least 26% of their issued capital, as well as other rural towns agreed upon by the parties.

In addition, Cellcom Energy shall have the right of first bid for proposals to purchase electricity from solar facilities featuring storage that will be built by Meshek Energy and related parties (if they are built) on dates agreed upon in the Founders' Agreement and in accordance with the mechanism set in it. Against this, Meshek Energy (and related bodies) shall have the right of first bid for proposals to supply electricity in any proceeding conducted by Cellcom Energy to purchase electricity, in accordance with the mechanism set in the Founders Agreement. The above rights of first bid shall be in effect so long as the Company or Meshek Energy, as the case may be, hold at least 30% of Cellcom Energy.

(5) Starting from the establishment of Cellcom Energy and up to December 31 2028, the Company (so long as it holds at least 50% of the rights of Cellcom Energy and the shares of the general partner) shall have the right to appoint the Chair of the Board of Directors and the Chair of the General Meeting of the general partner of Cellcom Energy, the Chair in question shall have the deciding vote on certain issues determined by the parties, in accordance with and subject to the mechanism regulated by the parties ("**the Deciding Vote Mechanism**"). The Deciding Vote Mechanism shall be extended automatically for additional periods of 5 years each unless use is made during the period in question, more than twice, of the Deciding Vote Mechanism, subject to the approval of the business plan by the parties for each additional period.

(6) Within the framework of the Founders' Agreements, restrictions were placed on the transfer of rights in Cellcom Energy and in the general partner's company including that all work needs to be for the full rights of each party, and a right of first rejection was established that may be activated after a certain amount of time has passed from the date the license was received by the partnership as defined in the agreement. In addition, starting from 5 years from the date the Founders' Agreement came into effect, each of the parties shall have the right to purchase the other party's share of the partnership and the general partner, in accordance with an agreed-upon MBMY agreement. Inasmuch as the Company is the one to initiate the MBMY mechanism and purchase Meshek Energy's share of the partnership and the general partner, then Meshek Energy shall be entitled to cancel the electricity purchase agreements, according to a mechanism and periods set in the Founders' Agreement.

23.4.2. Engagement in Agreements to Purchase Electricity

(1) Alongside the signing of the Founders' Agreement, the Company and Meshek Energy engaged for Cellcom Energy and a body connected to Meshek Energy ("**the Manufacturer**") in 4 agreements for the purchase of electricity, for a period of 20 years from the date each production facility is attributed to Cellcom Energy, in accordance with each of the agreements in question (subject, among other things, to that stated in 23.4.1.(6) above), from 4 production facilities built by Meshek Energy and related bodies over the course of 2024, with an installed solar output of 45 MW DC and an energy capacity of 100 MW/hour, for all facilities.

(2) The total payments expected to be made by Cellcom Energy in connection with the purchase of electricity from the four production facilities, for the agreements period on a cumulative basis, is NIS 500 million, which will be linked in part of the Consumer Price Index with an agreed-upon ceiling, and in part for the production rate (a weighted production component rate published by the Electricity Authority – "**the Weighted Rate**") ("**the Linkage Mechanism**"), and in addition, floor and ceiling rates were set that are linked to the Consumer Price Index Cellcom Energy will be required to pay to provide the electricity in each such production facility. The proceeds in question gross up a discount it a share agreed upon from the weighted rate.

(3) When the parties signed the electricity purchase agreements, the Company and Meshek Energy were given parent company guarantees (limited sum) according to their share, to guarantee the payments of Cellcom Energy to the manufacturer in accordance with the agreements. The sum of guarantees in question will be updated in accordance with the linkage mechanism that applies from the signing date of the electricity purchase agreements, on a cumulative basis for the full period of the agreements in question.

(4) In the event that the commercial operation of any of the production facilities (after receiving commercial operation approval from the IEC), in accordance with the electricity purchase agreements, has not occurred as of various dates set, over the course of 2024, Cellcom Energy will be paid agreed-upon compensation in accordance with a mechanism agreed upon, and if the commercial operation had not occurred until 12 months have passed since the date in question, the Manufacturer shall be entitled to cancel the electricity purchase agreements so that they will end at the conclusion of the 12 months in question and in such a case a mechanism shall be activated by the parties to purchase electricity. In addition, in the event that the Manufacturer does not

uphold their responsibilities regarding the scope and times of the flow of electricity provided Celcom Energy according to the agreement, for each of the production facilities separately, Celcom Energy will be paid an agreed-upon compensation up to a compensation ceiling in accordance with an agreed-upon mechanism, and inasmuch as the Manufacturer has reached the compensation ceiling, Cellcom Energy shall have the right to cancel the agreement.

23.4.3. The Founders' Agreement's coming into effect and validity, including the agreements to purchase electricity, was stipulated on the receipt of the approval of the Antitrust Authority (without conditions not accepted by the party) within 90 days of signing. On November 15 2023 the Antitrust Commissioner made a decision in which an exemption was given from the approval of a binding arrangement between the parties, for a period of 5 years (at the conclusion of which the Antitrust Commissioner will be able to reassess the competitive impact of the arrangement, with the development of the field of virtual supply to households, alongside the field of energy storage. Note that in the event that the exemption in question is not renewed, the parties have agreed upon a mechanism to liquidate the partnership between them.

As such, the engagement in question entered into effect and the parties are working to realize it.

23.4.4. In light of the rights the Company was given within the framework of the Founders' Agreement (including the deciding vote mechanism as per 23.4.1.(5) above), the Company is expected to consolidate the results of Celcom Energy in its Financial Statements so long as the deciding vote mechanism is in effect.

23.4.5. Note that in accordance with the business plan as attached to the Founders' Agreement, Cellcom Energy seeks to achieve a market share of 270,000 electricity customers by the end of 2028.

That stated above in connection with the business plan as noted above and including everything stated on the matter of the expected receipt of the license, the services the parties will provide Cellcom Energy and the sale of electricity by Meshek Energy and the scope and proceeds of such services as well as models, assessments, estimates and subjective analyses carried out and which were used by the Company for its assessments within the framework of the engagements in question constitute forward-looking information, as defined in the Securities Law, which may or may not be realized or be realized in some manner different (including materially different) from that described above, this, among other things, due to factors and/or influences that cannot be estimated in advance including changes that may occur in

the business plan and in the expected start of activity dates (among other things, due to delays in connection with the implications of the Iron Swords War), including changes that may occur in the electricity industry and regulatory changes (including in connection with electricity rates), the dates required permits are received, changes in construction and financing costs of projects at the basis of the engagements in question, the impact of competition in the industry on the business plan, changing economic and geopolitical environments and more.

24. Legal Proceedings

The Group is a party to legal proceedings filed against it from time to time. As of December 31 2023, the Company has made provisions totaling NIS 74 million for all suits filed against it From time to time motions are filed against the Group to approve suits as class actions, some of which for material sums.

As of the publication of the report, there are 34 motions pending against the Company to approve suits as class actions, and the Group is a party to 5 pending material class actions the filing of which against the Group has been approved.

24.1. Pending material legal proceedings:

The following are details of pending legal proceedings the sums claimed in which is material and which may have material implications on the Group's activity:

Claim Filing Date	Type of Proceedings, Parties and Court	Original Sum of Claim	Details
November 2010	A motion to approve a class action filed before the Tel Aviv District Court against the Company, claiming that the Company had unlawfully billed its customers for third party content services.	The sum of the class action was estimated by the plaintiff at NIS 300 million.	In October 2020 a hearing was held before the District Court on this motion and two other motions in the matter of the content services, the hearings for which were consolidated (see details below). After hearings held at court, the parties have held talks on a settlement in the suit, at a sum not material to the Company, and in January 2024 the settlement in question was approved for a sum negligible to the Company.
February 2013	A class action filed before the Central District Court against a former Group corporation (currently the Cellcom Partnership), claiming that it was not in compliance with the Consumer Protection Law and the terms of the license in the matter of the obligation to conclude an engagement on time.	The sum of the class action was estimated at NIS 72 million.	In January 2017 the motion was approved as a class action on a partial basis regarding Company customers who sought to disconnect from the service and who were not disconnected within the period of time set in law, and this even if the Group had mistakenly thought that the customer had retracted their disconnection notice. The primary claim in the suit according to which the group must immediately disconnect a customer upon request with no

Claim Filing Date	Type of Proceedings, Parties and Court	Original Sum of Claim	Details
			attempts at retention was rejected, and in March 2019 the appeal filed by the plaintiffs before the Supreme Court was also rejected, and the case returned to the District Court for hearings. The parties are in talks on a settlement is in the suit, at a sum not material to the Company.
July 2014	A motion to approve a suit as a class action filed by the plaintiff, the Israeli Consumers' Council against the Group, two additional cellular operators and a content supplier, claiming that the payment requests, legal proceedings and/or sums charged from them by the content provider are in violation of the law.	The sum of the class action was estimated at NIS 300 million.	In October 2020 a hearing was held before the District Court on this motion and two other motions in the matter of the content services, the hearings for which were consolidated. The Court recommended that the plaintiff not insist on this motion, and in spite of this, the case is still underway.
April 2020	A motion to approve a class action filed to the Tel Aviv Yafo District Court, claiming that the Group had misled its customers in the matter of the contents of an overseas internet package and violated its agreement with them.	The sum of the class action was estimated at NIS 82 million.	The parties reached a settlement (at a sum not material to the Company) filed before the court for approval.
February 2018; June 2023	A motion to approve a class action filed before the Jerusalem District Court, claiming that the Group had unlawfully raised the price of the base package of a plan which it provided to its customers, in which the discount period was time-limited, without providing satisfactory notice regarding the conclusion of the discount period.	The sum of the class action was estimated at tens of millions of NIS.	In April 2020 the Jerusalem District Court ruled on the motion, and according to it the applicants' claim was accepted in part and rejected in part. On May 30 2023 a ruling was made by the Supreme court accepting an appeal on the motion in question (in the matter of the portion of the ruling that had rejected the emotion). In the ruling it was determined, *inter alia*, that the Company had unlawfully raised the price of the base package of a plan which it provided to its customers, in which the discount period was time-limited, without providing satisfactory notice regarding the conclusion of the discount period. Following the issuance of the ruling, the class action

Claim Filing Date	Type of Proceedings, Parties and Court	Original Sum of Claim	Details
			is expected to be heard in the District Court of Jerusalem. In June 2023, the Company filed a motion before the Supreme Court for another hearing in connection with the ruling, which was rejected by the Court on August 17 2023. The case was returned to the District Court, and the parties are in talks on a settlement in the suit. Following the ruling in question given at the Supreme Court, over the course of June 2023 the Company received a motion to approve a class action, claiming that the Company had increased payments for its customers in fixed period transactions, without providing them with satisfactory notice regarding the price increase. Note that a similar motion had been filed against the Company in the past, and it was still pending, and accordingly, the motion filed in June 2023 was stricken in September 2023.
January 2024	A motion to approve a class action filed against the Company and against additional cellular operators, before the Central District Court. The motion claimed that the subscribers of the Company's Kosher plan were blocked from dialing certain numbers, in violation of the law and in violation of Ministry of Communications directives.	Over NIS 3 million	The Company is studying the details of the motion and cannot assess its chances at this time.

In October 2021 Golan filed an administrative motion before the Jerusalem District Court to cancel the decision of the Ministry of Communications from July 2021 that compelled Golan to repay the State for a monetary benefit it had received in the past from the Ministry of Communications at a sum of NIS 59 million and to repay the sum paid by Golan to the State, to it. In May 2023 Golan filed a petition to the High Court of justice on this matter (this, after a hearing held in April 2023, before the Tel Aviv District Court, following which the fermentative petition was consensually withdrawn (without a ruling on expense and while making clear that it would be filed before the High Court of Justice again)).

24.2. **Material Legal Proceedings Concluded During the Reported Period**

The following are details of material legal proceedings concluded during the reported period:

Claim filing date	Type of Proceedings, Parties and Court	Original Sum of Claim	Details	Completion Date
April 2018	A class action filed before the Central District Court claiming that the Company had charged compensation from a subscriber disconnecting from its services for a full monthly billing cycle, even though the date of the disconnection occurred over the course of the monthly billing cycle in violation of the law, the license and the agreement.	Not quantified	In June 2021 a ruling was made on the claim and the Company was required to return some NIS 31 million to the customer group represented in the claim. The Company appealed the verdict before the Supreme Court in September 2021. After a hearing held before the Supreme Court in February 2023, and in accordance with the recommendations of the Supreme Court, a ruling was issued that approves the settlement achieved by the parties, according to which the Company must repay its customers a reduced sum of NIS 20.7 million (including VAT) plus interest and linkage differences as well as compensation for the plaintiff and legal fees.	February 2023
November 2016	A motion to approve a class action filed before the Tel Aviv District Court, claiming that interest was charged unlawfully for end equipment in a loan agreement, within the framework of which the effective interest rate exceeded rates permitted by the Non-Bank Loans Regulation Law and/or with the interest rate not noted in violation of the Consumer Protection Law and regulations.	The sum of the suit is estimated at NIS 73 million.	On March 19 2023 a ruling was made that ratifies the agreed-upon motion for withdrawal (at a sum not material to the Company) achieved in a settlement between the parties.	March 2023
September 2017	Motions to approve class actions filed before the Central District Court,	The sum of the class actions was estimated	In June 2023 rulings were issued approving the settlements filed by	June 2023

Claim filing date	Type of Proceedings, Parties and Court	Original Sum of Claim	Details	Completion Date
	against the Company and a subsidiary on claiming that waiting times at the Group's call centers were not in accordance with the requirements of the license.	at 88 million NIS.	the parties (at sums not material to the Company).	
June 2023	A motion to approve a class action filed before the Jerusalem District court claiming that the Company had increased payments for its customers in fixed period transactions, without providing them with satisfactory notice regarding the price increase.	Not quantified	In September 2023 the Jerusalem District Court ruled to strike this motion.	September 2023

25. Goals and Business Strategy and Expected Development in the Coming Year

The primary components of the Group's business strategy and goals for coming years are:

25.1. **Offering comprehensive solutions for the provision of cellular and fixed line communications services –** the Group offers its private and business customers a broad variety of cellular and fixed line communications service and it intends to continue leveraging its leading status and its large market share in order to deepen the offering of services to its customers. For this purpose, the Group invests efforts to provide a high-quality service and support experience, innovative and advanced solutions, and invests in developing the service infrastructure including constant expansion and improvement of digital channels. In addition, the Group wishes to be the leader in the field of communications and provide value offers to its business customers.

25.2. **Expanding sales activities of end equipment** – the Group seeks to deepen and expand its activity in the sale of end equipment and repair warranty services to private and business customers. For this purpose, the Company operates on a regular basis to optimize the deployment of branch and services centers through which (among other things) the sales of end equipment takes place (mainly to provide customers). For details regarding physical sales points, see Section 10.1.2 above.

25.3. **Deepening activity in the field of electricity supply** – the Group is working to leverage its marketing, sales and service capabilities, for the purpose of its activity in the field of electricity supply, and accordingly – it intends to establish its brand in the field of electricity supply as well. In accordance with Cellcom Energy's business plan, the goal is to achieve a market share of 270,000 electricity customers by the end of 2028 (see 23.4.5 above)[58].

[58] That stated above in connection with the number of electricity customers as noted above, constitutes forward-looking information, as defined in the Securities Law, which may or may not be realized or be realized in some manner different (including materially different) from that described above, this, among other things, due to factors and/or influences that cannot be estimated in advance including changes that may occur in the business plan and in the expected start of activity

25.4. **Investment, development and upgrading the Group's communications networks** – the Group is working to uphold high-quality networks that support the provision of advanced solutions that meet its customers' needs. This includes in the field of cellular communications, the Group is working to maintain and monitor, upgrade and expand the capacity and deployment of its cellular networks. In the field of fixed line communications, the Group is working to maintain and upgrade the Group's transmission and optic fiber network and continue expanding the deployment of the IBC optic fiber network.

25.5. **Optimization of the structure of expenses** – the Group regularly works to streamline and adjust the structure of its expenses, while constantly striving to improve and maintain the quality of its customer services, all of this as leverage to increase its revenues and improve its profitability.

25.6. **Business development, innovation and compatibility with market trends** – the Group strives to allow itself the flexibility it needs in order to respond quickly and effectively to market trends, including in the field of cellular communications and in the field of fixed line communications. Within the framework of its business development, the Group is considering entering other tangential areas, in order to leverage its advantages and generate growth. Within this framework, among other things, the Group is examining the provision of services and cooperations, including through a customers' club it established (for details see 10.1.1 above).

26. Discussion of Risk Factors

The following is a review of risk factors that may have a negative impact on the Group's areas of activity and results:

26.1. Macroeconomic Risk Factors

26.1.1. Financial risks – the Group is exposed to changes in exchange rates, as some of its expenses, mainly mobile end equipment, is in U.S. dollars while its revenues are in NIS. In addition, the Group is exposed to changes in to changes in the Consumer Price Index for some of the debenture series it issued, as they are linked to the Consumer Price Index, so that any increase in the CPI rate will increase the Company's commitment and financing expenses. In addition, the Group has certain exposure for additional expenses linked to the Consumer

dates (among other things, due to delays in connection with the implications of the Iron Swords War), including changes that may occur in the electricity industry and regulatory changes (including in connection with electricity rates), the dates required permits are received, changes in construction and financing costs of projects at the basis of the engagements in question, the impact of competition in the industry on the business plan, changing economic and geopolitical environments and more.

Price Index, such as rental expenses/usage fees (see Section 12.3 above). In addition, changes in interest rates may impact the cost of raising debt by the Company as well as on financing expenses for variable interest loans (if any such exist in the future). The Group is working to reduce the exposure to financial risks (including CPI and USD) through financial hedging agreements. In recent years the Company has made a number of offering of debentures not linked to the CPI.

26.1.2. Regional conflict and political or economic instability – an armed conflict, act of terror or political or economic instability in the State of Israel may lead to harm to the Group's infrastructure and/or revenues, including from roaming services of incoming tourism. Such negative influences may also be realized as a result of an increase in criticism of Israel by the international community, including inclusion in the list of companies published from time to time by the UN Human Rights Organization.

The Group's activity, its fixed assets, its customers and some of its suppliers are in Israel. Any damage to the Group's communications network and/or information systems may harm the Group's ability to continue providing its services, in whole or in part, and/or harm the Group's activity in some other way, and may have a negative impact on its business results.

In addition, the discontinuation of the provision of services in the Judea and Samaria regions as a result of the end of Israeli control of these areas, may lead to a loss of subscribers and revenues.

For details on the impact of the Iron Swords War on the Group's activity and business results, see Section 3.1.c of the Board of Directors Report.

26.1.3. Cyber-attacks – in recent years there has been an increase in the frequency, scope and damage potential of cyber-attacks against companies including the Group. Cyber-attacks may lead to equipment failures, loss, disclosure, access, use, vandalism, destruction or appropriation of information, including sensitive personal information of customers or employees, or expensive content and technical and marketing information, as well as disruptions in Group and customer activity. The inability to operate the networks and systems of the Group, its suppliers or other service providers, even for a limited period of time, may lead to significant expenses (beyond the Group's insurance coverage), the loss of market share to other providers, suits, sanctions and legal proceedings, as well as harm to the Group's reputation and lead to a material negative impact on its operating results or monetary status. For details on cyber defense at the Group and functional continuity plans, see 21.9 above. For further details see 21.9 above.

26.2. **Industry Risks**

26.2.1. Increased competition – the communications market is characterized by ahigh levels of competition in many of its areas. The Ministry of Communications is continuing to work to lower barriers and increase competition in various fields of communications. For details see Section 21.2.1.(4) above. The Company estimates that the current level of competition in most of the markets in which the Group is active and various pricing plans by the Group's competitors are expected to continue. For details on how the Group deals with competition in its areas of activity, see 11.2 above.

In this context, the realization of any of the following risks may lead to a material negative impact on the Group's operating results:

(1) A drop in rates, including as part of a package of services.

(2) Pricing or changes in regulation in such a manner that will impact the Group's ability to offer competitive service packages;

(3) Increased competition on behalf of the Bezeq and HOT Groups, as a result of their domination in the terrestrial market. Thus, for instance, if Bezeq and/or HOT work to reduce the margin between retail and wholesale service ("margin squeeze") without regulatory intervention, to prevent the reduction in question (for details on a hearing published by the Ministry of Communications in the matter of setting a format for the examination of the reduction of margins in the wholesale market and the Minister of Communications' decision on the matter, see 21.6.2 above);

(4) Cancellation or additional relief in the structural separation imposed on the Bezeq and HOT Groups;

(5) The entrance of new competitors, including international companies, into markets in which the Group is active or the activity of competitors in that market according to materially different regulation that will encumber the Group;

(6) Making complementary services (such as services of international content suppliers as detailed in Section 11.4.2. above) competitive with the Group's services or the entrance of existing competitors to areas in which they had not been active or in which they had only been partially active to date;

(7) A significant expansion of the current capability to provide self-communications services, including through third parties who are not license holders; the supply of coverage better than that provided by cellular operators owning infrastructure through the use of a number of networks;

allocating frequencies to companies that will be able to provide cellular services not to the entire public throughout the country;

(8) Lack of broad independent deployment of fixed line communications by IBC and/or increasing the margin in the deployment of networks between it and its competitors or deployment at more expensive rates compared to its competitors;

(9) The Group's inability to purchase additional frequencies at amounts equal to the frequencies purchased by its competitors or at an insufficient amount and/or the lack of the Group's ability to make use of frequencies allocated to Wecom and/or which Wecom won in the 2020 Tender. Lack of ability to make the required investments in the Group's networks or business in general, in order to preserve its competitive status;

(10) Regulatory or technological changes that make it easier and/or possible for customers to move between operators and the manner in which services are consumer by customers, including e-SIM technology (for further details, see Section 7.1 above);

(11) The Group's competitors' ability to secure better access and terms of engagement with international supplier or foreign operators, due to them belonging to international groups or due to the existence of exclusivity arrangements.

(12) Moving to other frequencies, which will have a negative impact on the Group's services or that the Group will be required to bear the costs of changing frequencies or reducing frequencies, which does not impact competitors or the allocation of frequencies held by the Company to other companies or a demand to return frequencies allocated to the Group for the restriction of the use of frequencies and/or not allocating additional frequencies (if needed) and/or allocating frequencies under terms not beneficial to the Group and/or under inferior conditions and/or at a smaller amount than for other operators and/or a demand to replace frequencies according to unreasonable timetables or while bearing the costs of their replacement. For details on a demand the Company received to change its frequencies, see 13.5.3 above.

(13) Malfunctions and/or cyber-attacks that harm the Group's databases and/or the supply of communications services by the Group and its image.

26.2.2. <u>Changes in legislation and high legislative involvement</u> – changes in legislation, regulatory intervention in the communications market and in the

Group's activity and court rulings may have a material negative impact on the Group's operating results, among other things, due to"

(1) Cancellation or additional relief in the structural separation obligation applicable to Bezeq and HOT;

(2) Different regulatory rulings regarding rates in the wholesale market that do not benefit the Group, including setting high rates for wholesale services (in particular in light of increased demand for speed for high data capacity for internet and TV services). In addition, establishing a mechanism that does not prevent Bezeq or HOT from reducing wholesale rates and thus reducing the margin squeeze;

(3) Granting relief and benefits to the Group's competitors;

(4) Establishing conditions for the deployment of the Group's network when using new frequencies that will require significant investment by the Company, without touching upon the Group's economic feasibility or financial status;

(5) An additional lowering of entrance barriers and encouraging new competitors to enter the communications market, such as decreasing the requirements for the receipt of a license or issuing relief for the provision of communications services that may increase competition in the market;

(6) A significant expansion of the current capability to provide self-communications services, including through third parties who are not license holders; the supply of coverage better than that provided by cellular operators owning infrastructure through the use of a number of networks; allocating frequencies to companies and giving them the ability to provide cellular services not to the entire public throughout the country;

(7) Setting additional safety or health requirements; setting additional requirements or restrictions regarding building and operating base sites and networks;

(8) Establishing additional restrictions or requirements on the provision of services and products and/or intervention in their marketing, advertising, price and supply conditions, including regarding existing agreements;

(9) Setting higher standards of service, both regarding network quality, coverage and survivability (including energy survivability, including during emergencies) and regarding customer services, including response times;

(10) Setting a timetable for the implementation of new requirements in a license of implementing other legislation that cannot be met;

(11) Setting stricter policies regarding privacy protection, including regarding the Group's commercial activity or in favor of third parties;

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

(13) Restricting or prohibiting the renewal of licenses and allocation of additional frequencies, among other things, as the Group is included in the list of centralized factors that is published in accordance with the Promotion of Competition and Decrease of Centralization Law, 2013 (as it is a company under the control of DIC, which is - for the purposes of the law in this regard – part of the Electra Group and of the Tzachi Nachmias Group (the controlling shareholder of Mega Or Holdings Ltd.));

(14) Establishing regulation that does not benefit IBC's activity or competitive status, which will have a negative impact on the Group as indirect shareholder or customer of IBC.

(15) Any amendment to the Radiation Law or the Planning and Construction Law (including changes to TMA 36 that will prohibit or significantly limit the issue of permits or exemptions from the receipt of permits in accordance with these laws, may, among other things, limit the Group's ability to build new sites (and if it applies to existing sites, may limit the Group's ability to renew the operating permits of many of its existing sites and mat even lead to their disassembly), have a negative influence on the quality and coverage of the Group's existing and future networks, particularly in urban areas, and have a negative impact on the effective marketing of the Group's products and services and thus have a negative impact on its operating results.

26.2.3. <u>A significant drop in profitability as a result if material changes in the regulatory and business environment</u> – an increase in levels of competition in markets in which the Group is active, that may be caused, among other things, as a result of material and ongoing changes in the Group's regulatory and business environment, may have a negative impact on the Group's operating results and financial status, prevent it from making the required investments in order to preserve its competitive status and potential future growth or compel it to raise additional debt under non-optimal conditions, or make it difficult for it to recycle existing debt.

26.2.4. Site licensing – building and operating base sites that require the receipt of building permits from the various Planning and Construction Councils, a process that requires, among other things, the receipt of approvals from government elements and regulatory bodies. The difficulties encountered by the Group (as well as its competitors) in securing the required permits and approvals, and in particular building permits, including due to public concerns regarding radiation from sites, may have a negative impact on the Group's existing infrastructure and the continued development of its cellular network. In addition, failure to secure the approvals in a timely manner, may harm the cellular services quality goals as set in the Group's license, lead to the loss of customers, as well as have a negative impact on the Group's business results.

26.2.5. Non-ionizing radiation from end equipment and sites – cellular end equipment and sites of various types emit non-ionizing radiation. The construction and operation of base sites is stipulated on the receipt of a construction and operation permit from the Radiation Supervisor. The Group is working to make sure that the levels of radiation emitted by end equipment sold by it and by the cellular sites do not exceed levels of radiation permitted by Ministry of Environmental Protection guidelines (set in accordance with international standards).

If public concerns regarding non-ionizing radiation increase and/or health risks as result of non-ionizing radiation are discovered and/or deviations are found from radiation standards at sites or in end equipment and/or the courts ruled against the Group or against some other cellular operator and/or a settlement is reached in the suit pertaining to health damage, this may have a material negative impact on the Group. This material impact may derive, among other things, from the following reasons: various types of compensation suits for significant property damage or bodily harm, difficulties in building, operating and renting sites, a decrease in revenues as a result of a decrease in uses of cellular communications, and exercise of the letters of indemnification deposited at design institutions in connection with Section 197 of the Planning and Construction Law, as detailed in Section 21.5.1.(3) above. Note that the Group does not have insurance coverage for the cases described above. In addition, the Group cannot assess the impact of non-ionizing radiation on it, if any.

26.2.6. Dependence on licenses and Registry listings – the Group provides communications services in accordance with the licenses and permits issued to it by the Ministry of Communications, which may be altered and extended from time to time. No certainty exists that the Group's licenses will be renewed by the Ministry of Communications. Inasmuch as the licenses are extended, they may be extended under terms not convenient to the Group. In the matter of exposure to interpretation and the application given by the Ministry of Communications to the terms of the licenses, see 21.4 above.

26.2.7. Technological changes and dependence on technology – the communications market is characterized by frequent and significant changes in technology and requires investment in advanced technology in order to remain competitive.

In order to meet the increased demand for data communications over the cellular network, the Group must continue to invest in the 4G and 5G network, hold a sufficient amount of frequencies and upgrade its transmission network. In addition, the Company needs to develop and provide a response to increases in the network core and in its networking array in accordance with increases in traffic volumes. The increases in data traffic levels, both on the fixed line network and the cellular network, is expected to continue in the future.

In order to meet the increased demand for data traffic over terrestrial networks, and find better alternatives to purchasing capacity from suppliers with extensive infrastructure, the Group has invested in infrastructure deployment and in IBC and has entered into an agreement with IBC to purchase usage rights to its infrastructure. These activities are expensive and require administrivia attention that can be aimed at other activities.

If the Group does not have sufficient frequencies or the Group does not manage to make up for the required increase in expense or in investments (in particular in comparison with its competitors, some of whom are not required to make similar investments or pay increased expenses), the Group's operating expenses may be materially negatively impacted.

Likewise, moving to new technologies and using new equipment, exposes the systems and services to problems, whether problems that had not been discovered or solved in the new technology or the new equipment, or whether due to the transition process itself.

In addition, the Group's activity depends on a number of complex information systems and technologies, including billing systems. Problems with complex systems that change and expand on a regular basis are unavoidable. A problem in any of the Group's systems that may have a negative impact on its ability to provide services and products to customers or bill them properly, may lead to a loss of income, have a negative impact on the Group's branding and expose it to lawsuits and administrative sanctions. As of the publication of the report, the

Group is continuing to develop additional modules for the Company's CRM system (for details see Section 15.2.6 above). The development and assimilation process requires significant monetary resources and executive attention and may lead to unexpected difficulties and operational failures.

26.2.8. Drop in revenues from end equipment – the sale of end equipment constitutes a significant part of the Group's revenues (both in the field of cellular communications and in the field of terrestrial communications). In recent years, additional competitors have entered this field and increased competition in the market. The continuation of the trend or additional changes in this market, including those detailed below, may have a negative impact on the scope of activity and profitability of end equipment:

(1) Entrance of new domestic or international competitors in the field;

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

(3) The inability to continue marketing products from certain suppliers constituting a large share of the Group's sales (such as marketing Samsung and Apple products constituting most of the Group's sales as of the publication of the report);

(4) In the fixed end equipment field – business companies moving to the cloud and having less need for physical end equipment.

(5) New legislation and the decisions of regulators or courts, which may impact the Group's ability to market end equipment or make money from it.

26.2.9. Emergency conditions – there are legislative provisions and directives in the MNO license granting legally certified parties, during times of emergency, authorization to takes steps needed to ensure the safety of the State and the good of the public, including: requiring the Group to provide service or build a communications facility for the security services, provide engineering equipment and facilities owned by the Group and even taking control of the Group's systems and resources.

26.2.10. Legal proceedings – the Group is party to legal proceedings filed against it from time to time, including (a) suits on consumer subjects and privacy subjects – the scope and size of the Group's activity, the number of services provided, the amount of information processed, changes in the Group's activity and its price plans, frequent changes in legislation and the law applicable to the Group, the involvement of thousands of service and sales reps in connection with the customer and cyber-attacks, increase the risk of service failures, harm to or penetration of the Company's systems, and incompatibilities between plans, prices and information on the basis of which the Group is active, in spite of the Group's efforts to reduce the risk in question. The Group's exposure to legal proceedings the grounds of which on consumer subjects and privacy subjects as noted above, including within the framework of requests to approve class actions against the Group, are at material sums; (b) suits by employees, subcontractors, suppliers, property renters, authorities or others – the Group employs thousands of workers and therefore is exposed to suits filed by them, including class action suits. In addition, the Group is exposed to third party suits in connection with commercial disputes, claims from state authorities, including the Ministry of Communications, and proceedings in the matter of planning and construction (as detailed in Section 21.5.1.(1).c above), and (c) intellectual property claims – the Group has a risk of intellectual property rights claims, regarding its services that include television services and other content services (including video, images and music) the Group purchases from outside content providers. These proceedings may demand that the Group manage expensive and complex proceedings, regardless of the justification of the claims against the Group, and limit its ability to make use of certain content if ruled against.

26.2.11. Risks involved in the Company's activity in the field of electricity provision – the Company's activity in this field is in its initial stages. The primary industry risks connected to this activity touch upon the need to hold financial guarantees in connection with the activity, exposure to regulatory changes, dependence on licenses and agreements with electricity manufacturers, exposure to the entrance of significant competitors in this industry, and more.

26.3. **Risks Particular to the Group**

26.3.1. High debt and debt recycling ability – the Group has raised significant debt, which exposes the Group to market change and may make it difficult for the Group to respond rapidly to changes in the industry and in competitive market conditions, including by raising additional debt and/or debt refinancing. For further details see Section 18 above and Note 18 to the Financial Statements.

26.3.2. Dependence on suppliers – the Group is dependent on a number of suppliers that provide it with network communications equipment, information systems, content and end equipment, including operation and maintenance equipment for them. The Group's business results may be negatively influenced if one of its suppliers does not provide products or services at the quality or date required, or provides them under conditions that are not optimal for the Group; provides its products or services to the Group's competitors under preferred conditions;

fails to product successful or high-demand products or services in the absence of equivalent alternatives; or decides to increase the price of products or contents (such as sports content providers).

In addition, the Group is also dependent on infrastructure suppliers for internet access (Bezeq and HOT), fixed line infrastructure (Bezeq and IBC), fixed line communications and television services. In addition, the Group relies on agreements with foreign operators, which it cannot control (or control the quality of their service), which provide cellular roaming capabilities to the Groups' cellular subscribers and domestic operator services to its cellular and fixed line subscribers. In addition, in its activity in the field of television, the Group has a certain level of dependence on its content providers.

Furthermore, a global chip shortage, delays in supply chains as a result of global and domestic security situations may lead to suppliers not being able to provide the Group with the equipment it needs for its activity or do so at extended timetables that will lead to delays and postponement, with all of these capable of negatively impacting the Group's operating results and its ability to deal with problems or develop the network.

26.3.3. <u>Network sharing agreement</u> – the Group's network sharing with Wecom (by virtue of the network sharing agreement between the parties) is material to the Group. If the sharing agreement is cancelled or violated or its terms are altered in such a manner that payments to the Group by virtue of it are significantly reduced, the payments to the Group in accordance with the agreement are not paid for extended periods of time, for any reason, this may lead to a negative impact on the Group's operating expenses. In addition, in the event that the Company is not able to use Wecom frequencies in the shared network, this may impact the quality of service. For further detail on the creditors' arrangement and the changes in the sharing agreement, see Section 23.1 above.

26.3.4. <u>The Group's investments in new businesses</u> – the Group has invested, and is expected to continue to invest, in the development of new businesses with the aim of expanding its capabilities and product offerings, such as its investment in IBC, the purchase of Golan and its entrance into the electricity supply market. The Group's investments in new businesses are dangerous by nature and therefor there is no certainty that the strategies or products in question will succeed and not have a material negative impact on the Group's reputation, its financial status and its operating results.

26.3.5. <u>Worker organization</u> – worker unions may limit the Group's ongoing activity, including its flexibility in making organizational and personal changes, and demand extensive managerial attention. In addition, disagreements with representatives of the workers' organization, may lead to organizational steps and negative impact on the Group's services and customer service. Such changes may fail or be carried out in a manner different than planned, and as a result lead to lower savings than planned. For further details on employee organization at the Group, see Section 14.5 above.

26.4. **Risk Factor Table**

The following table presents the risk factors described above according to their nature, which have been ranked, in accordance with Group Management estimates, and according to their effect on the Group's business as a whole:

Type of Risk	**Risk Factors**	**Influence on the Group's Business**		
		Major Influence	**Moderate Influence**	**Minor Influence**
Macro Risks	Financial risks		X	
	Regional conflict and political or economic instability		X	
	Cyber attacks		X	
Industry Risks	Increased competition:	X		
	Changes in legislation and high levels of regulatory intervention	X		
	Significant drop in profitability as a result of material changes to the regulatory and business environment	X		
	Site licensing		X	
	Non-ionizing radiation from end equipment and sites			X
	Dependence on licenses			X
	Technological changes and dependence on technology		X	
	Drop in end equipment revenues		X	
	Times of emergency			X
	Legal proceedings		X	

	Risks involved in the Company's activity in the field of electricity provision			**X**
Risks Particular to the Group	High debt and debt recycling capability		**X**	
	Dependence on suppliers			**X**
	Network sharing agreement			**X**
	The Group's investments in new businesses			**X**
	Worker organization		**X**	

Chapter B

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

December 31, 2023

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, 2023 (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**"). The company's securities are traded on the Tel Aviv Stock Exchange Ltd.

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, 2023 (the "**Financial Statements**") (for details see Note 6 to the Financial Statements):

1.1.1. The cellular communications area (cellular segment) - In the framework of this field of activity, the Group provides its customers with a wide range of cellular telecommunication services in Israel, under license it was granted by the Israeli Ministry of Communications or MOC. In addition, the Group provides overseas roaming services to its customers and to customers of foreign operators who are visiting Israel. The Group also sells (mainly through Dynamica) cellular end equipment and warranty and repair services for end equipment. In addition, the group provides construction, operation and maintenance services for the radio network it shares with Wecom.

For details see Note 30 to the Financial Statements.

1.1.2. The fixed-line communications area (fixed-line segment) -

Within the framework of this area of activity, the Group provides internet services, by virtue of a license provided to it by the Ministry of Communications and by virtue of it being a licensed provider in accordance with the Communications Law. These services include internet service providers (ISP) as well as infrastructure services (broadband services, on the basis of IBC fiber optics; as well as copper infrastructure and Bezeq fiber optics within the framework of the wholesale market), TV services over the internet (Cellcom TV), international line-based telephone services (international carrier services) and domestic services, (Domestic Provider services) and transmission services to business customers (including international transmission services) and for the communications operators on the basis of the Group's independent infrastructure as well as on other operator infrastructure. The Group also provides additional services such as IOT solutions, integration and maintenance of information security solutions services, video conference services, and server hosting services. In addition, the Group sells land-based end equipment attributed to the land-based segment.

1.2. A review of the Company’s management regarding the results of the Group’s activity for the year 2023 and material processes that were conducted that year:

In 2023 the Group continued to display an increase in revenues and growth in subscribers, in both the land-based and mobile sectors.

The Group concluded 2023 with a net profit of NIS 134 million against NIS 157 million in 2022, reflecting a drop of 14.6%, with the drop deriving among other things from recording a provision for lawsuits that led to a drop in net profits of NIS 35 million as well as the influence of the war that began in the fourth quarter and which had a negative impact on the Company’s operating profit to the sum of NIS 20 million (NIS 16 million on net profit) (see details in the impact of the war in Note 1b to the Financial Statements). The reasons noted above led to a drop in net profits in spite of the decrease in the Group’s revenues.

In 2023 an increase occurred in the Group’s roster of cellular subscribers, which at the end of the year reached 3,555 thousand subscribers (a growth rate of 3%), the roster of the internet subscribers reached a total of about 350 thousand subscribers, a (net) increase of 27 thousand subscribers from the start of the year. the roster of the internet subscribers reached a total of about 259 thousand subscribers which constitute a total of 74% of the Group’s internet infrastructure subscribers.

The Group’s total revenues amounted to a total NIS 4,398 million compared to a total of NIS 4,300 million in 2022, reflecting a 2% increase. Revenues from services in the mobile segment in 2023 increased by 1% and amounted to a total of NIS 1,992 million. Revenues from services were influenced by a regulatory change of lowered connectivity fees (see Note 32g to the Financial Statements) after neutralizing the drop in connectivity fees, revenue from services in the mobile sector increased by 5.7% relative to 2022. Revenues from services in the land-based segment increased by 7% compared to 2022 and amounted to NIS 1,382 million.

Revenues from end equipment in 2023 amounted to NIS 1,181 million, a 1% decrease relative to 2022.

The adjusted EBITDA (see definition of adjusted EBITDA in Section 4 of this report) amounted to NIS 1,272 million in 2023, a 6% growth from 2022. The increase derived from an increase in revenues and an increase in gross profits.

The free cash flow (FCF) amounted to NIS 272 million compared to NIS 230 million in 2022, a 18% increase deriving among other things from an improvement in the Company's ongoing activity and an improvement in working capital.

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

1.3.1. For details regarding claims, see note 31 to interim financial statements.

1.3.2 For details on the provision of credit frameworks, debentures and the issue of commercial securities, see Note 18 to the Financial Statements.

1.3.3 The Iron Swords War broke out in October 2023 (hereinafter and above: "the War"). For further details on the impact of the War, see Note 1b to the Financial Statements.

1.3.4 In August 2023, the Company entered into a founders' agreement with Meshek Energy Renewable Energy Ltd. ("Meshek Energy") ("the Founders' Agreement") for the establishment of a registered limited partnership ("Cellcom Energy") the goal of which is to operate in the field of marketing, sale and supply of electricity to home and business consumers. Alongside with signing the Founders' Agreement, the parties and parties connected to Meshek Energy ("the Manufacturer") engaged in 4 agreements for the purchase of electricity, for a period of 20 years in return for a total of NIS 500 million. For further details on the electricity supply, see Note 30 to the Financial Statements.

1.3.5 For details on a transaction for the sale of the holdings of the Company's controlling shareholder, see Note 1a to the Financial Statements.

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

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

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

In 2023, inflation increased by 3.3%. In addition, the Bank of Israel increased interest rates in the economy from the beginning of the year from a rate of 3.25% to a rate of 4.75% at the end of 2023. In January 2024, the Bank of Israel interest rate dropped to 4.5%.

Below is the assessment of the direct impact of the increase in the rate of inflation and interest on the group in the year 2023:

The main effect of the increase in inflation is on financing expenses for index-linked bonds;

In 2023, the Company recorded financing expenses for linkage to the CPI of debentures to the sum of NIS 12 million, before tax. The CPI-linked debit balance of the debentures dropped from NIS 407 million at the end of 2022 to NIS 233 million over the course of 2023, and is expected to mostly continue to drop over the course of 2024 as part of the replacement of the debt that had been CPI-linked in the past to NIS debt. In addition, the group's cost structure includes index-linked rental contracts that also include the rental of buildings and cellular sites. per company assessments, Every 1% increase in inflation will cause an increase in the group's expenses by about ILS 2 million before tax.

Below is the assessment of the indirect impact of the increase in the rate of inflation and interest on the group:

As a result of an increase of the index in the economy, there may be increases in the prices of the group's inputs, which may affect the group's results.

Below is the assessment of the impact of the interest rate increase on the company:

As mentioned above, The interest rate increase does not materially affect the company's cost structure directly.

However, regarding turnover of future debt and/or future debt raising, per company needs, insofar as the interest rate environment in the economy is higher, the situation may affect the amount of interest in such future debt raising and the company's financing expenses. In January 2024. subsequent to the reported period, the Company issued non-tradable commercial securities ("CS"), recorded on the Tel Aviv Securities Exchange (non-tradable) in return for a NIS 200 million NV principal. The CS are influenced by the interest rates in the economy and therefore any increase of 1% in interest rates would lead to a NIS 2 million increase in financing expenses.

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

The company examined the effect of the interest rate increase in 2023 as part of the annual examination of goodwill impairment as of 31 December 2023. The increase in interest during the period resulted in an Insignificant increase in the capitalization rate; This increase in capitalization did not result in an impairment in the two reported segments of the company. For more details regarding examination of impairment for a cash-generating unit that includes goodwill, see Note 13 in the financial statements as well as the impairment work attached to the current report.

2. **Financial position**

Section	As of December 31		Board of directors' explanation
	2023	2022	
	NIS millions		
Current assets	1,635	2,012	A drop in current assets largely derives from the redemption of the debentures.
Non-current assets	4,985	4,986	
Total assets	**6,620**	**6,998**	
Current liabilities	1,981	1,924	An increase in short-term creditors as a result of an increase due to legal claims.
Non-current liabilities	2,376	2,970	A decrease mainly in the balance of debentures redeemed.
Total liabilities	**4,357**	**4,894**	
Equity	2,263	2,104	Mainly with respect to profit for the period.
Total liabilities and equity	**6,620**	**6,998**	

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, 2021, 2022 and 2023 (in NIS millions):

Section	For the year ended at December 31			Board of directors' explanation
	2023	2022	2021	
	NIS millions			
Revenues from services	3,217	3,111	2,939	An increase in revenues from services in the land-based and mobile sectors partially offset by a decrease in revenues from reciprocal connectivity fees.
Revenues from equipment	1,181	1,189	1,161	
Total revenues	4,398	4,300	4,100	
Cost of revenues	(3,059)	(3,034)	(2,963)	An increase in costs from sales activities to foreign operators, network depreciation and expenses due to the electricity venture partially offset by a decrease in connectivity fee costs.
Gross profit	1,339	1,266	1,137	
Gross profit rate from total revenues	30.4%	29.4%	27.7%	
Sale and marketing, General and administrative costs and credit losses	(1,002)	(952)	(972)	An increase in salary, marketer commissions, depreciation expenses and marketing and advertising expenses.
Other income (loss), net	(4)	44	44	Expense for legal claims to the sum of NIS 46 million that was offset from interest revenues from the sale of end equipment and revenues from profits in ongoing projects.
Operating profit	333	358	209	
Financing costs, net	(140)	(155)	(165)	A decrease as a result of a lower increase in the CPI than in 2023 and a decrease in interest expenses as a result of lower average debt as well as an increase in interest revenues on deposits.
Share in the losses of equity accounted investees	(3)	(1)	(5)	
Profit before taxes on revenue	190	202	39	
Taxes on income	(56)	(45)	(12)	
Net profit	**134**	**157**	**27**	

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

Section	Q4 2023	Q4 2022	Board of directors' explanation
Revenues from services	775	780	Most of the decrease derives from a drop in revenues in the mobile segment from roaming services, reciprocal connectivity fees and prepaid services partially offset by an increase in revenues from land-based services.
Revenues from equipment	347	281	An increase in sales of end equipment due to the launch of a new model of iPhone over the course of the fourth quarter of 2023.
Total revenues	1,122	1,061	
Cost of revenues	(807)	(743)	Increase in the cost of goods sold for mobile end equipment.
Gross profit	315	318	
Gross profit rate from total revenues	28.1%	30.0%	
Sale and marketing, General and administrative costs and credit losses	(256)	(247)	Increase in advertising, depreciation and other expenses.
Other income, net	21	24	
Operating profit	80	95	
Financing costs, net	(32)	(38)	Mostly a decrease in interest expenses due to debentures and linkage to foreign currency differences due to fluctuations in the exchange rate of the USD.
Share in the profit of equity accounted investees	1	1	
Profit before taxes on revenue	49	58	
Taxes on income	(16)	(9)	
Net profit	**33**	**49**	

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

Financial data (million NIS)	2023	2022	Q4'23	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22	Q1'22
Revenue from services private cellular segment	1,341	1,284	323	356	339	323	329	331	320	304
Revenue from services business cellular segment	231	223	53	62	59	57	58	59	56	50
Revenue from other services (mainly IC)[1]	420	466	93	90	113	124	112	120	113	121
Total revenues from services cellular segment	**1,992**	**1,973**	**469**	**508**	**511**	**504**	**499**	**510**	**489**	**475**
Revenue from equipment cellular segment	898	928	276	204	188	230	214	246	239	229
Total Revenues cellular segment	**2,890**	**2,901**	**745**	**712**	**699**	**734**	**713**	**756**	**728**	**704**
Revenue from services private fixed-line segment	744	719	193	187	184	180	179	183	179	178
Revenue from services business fixed-line segment	518	462	124	135	137	122	113	122	110	117
Revenue from services other fixed-line segment (mainly inter- segment)	120	112	29	33	30	28	28	28	29	27
Total revenues from services fixed-line segment	**1,382**	**1,293**	**346**	**355**	**351**	**330**	**320**	**333**	**318**	**322**
Revenue from equipment fixed-line segment	283	261	71	97	59	56	67	65	61	68
Total Revenues fixed-line segment	**1,665**	**1,554**	**417**	**452**	**410**	**386**	**387**	**398**	**379**	**390**
Consolidation adjusments	(157)	(155)	(40)	(39)	(39)	(39)	(39)	(39)	(38)	(39)
Total revenues	**4,398**	**4,300**	**1,122**	**1,125**	**1,070**	**1,081**	**1,061**	**1,115**	**1,069**	**1,055**
Gross profit eqipment	192	201	50	45	41	56	50	48	51	52
Operational expenses[2]	2,157	2,123	518	536	551	552	524	548	521	530
Adusted EBITDA cellular segment	833	768	192	217	213	211	197	205	191	175
Adusted EBITDA fixed-line segment	439	429	116	120	108	95	100	106	112	111
Adjusted EBITDA[3]	1,272	1,197	308	337	321	306	297	311	303	286
Operating profit	333	358	80	111	50	92	95	95	95	73
Finanacing expenses, net	140	155	32	33	37	38	38	39	43	35

[1] IC in this component refers to mutual connection fee rates paid by a cellular operator or an international services operator or an international operator for completing a call on the company's cellular network or for sending an SMS message to the company's cellular network. For further details on reciprocal connectivity rates see Section 21.3.1 of Chapter A of the 2023 Periodic Report.

[2] Operating expenses include other expenses and do not include depreciation expenses and the cost of end equipment and a one-time expenses due to a provision to legal claims.

[3] See definition in Section 4 below.

Profit for the period	134	157	33	53	5	43	49	41	39	28
Capital expendtures tangible and intangble assets	663	592	130	157	191	185	108	250	135	99
Free cashflow	272	230	74	77	52	69	76	38	64	52
Finance debt ,net	1,889	2,047	1,889	1,937	1,991	2,010	2,047	2,090	2,098	2,126
Operational Data										
Number of cellular Subscribers (thousands)[4]	3,555	3,452	3,555	3,523	3,487	3,466	3,452	3,410	3,346	3,306
Churn rate for cellular Subscribers[5]	29.2%	28.9%	7%	7.3%	7.2%	7.4%	7.1%	7%	7%	7.5%
Monthly cellular ARPU (NIS)[6]	47.5	48.9	44	48.3	49	48.6	48.2	50.3	49	47.7
Monthly cellular ARPU (NIS) without IC[7]	37.5	37.5	35.4	39.7	38.2	36.6	37.5	38.6	37.7	35.8
TV field Subscribers (thousands)	263	257	263	261	260	259	257	256	255	254
Internet infrastructure field Subscribers (thousands)[8]	350	323	350	342	334	329	323	319	316	311
Fiber infrastructure field Subscribers (thousands)	259	188	259	240	219	204	188	175	162	150

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

	Cellular			Fixed-line			Inter-segment adjustments	
	2023	2022	Change in %	2023	2022	Change in %	2023	2022
Revenue from services	1,992	1,973	1%	1,382	1,293	6.9%	(157)	(155)
Revenue from equipment	898	928	(3.2%)	283	261	8.4%	-	-
Total revenue	2,890	2,901	(0.4%)	1,665	1,554	7.1%	(157)	(155)
Adjusted EBITDA	833	768	8.5%	439	429	2.3%	-	-
Adjusted EBITDA as a percentage of total revenue	28.8%	26.5%	8.7%	26.4%	27.6%	(4.3%)	-	-

[4] The subscribers' list data refers to “active” subscribers. For purpose of the subscriber list, one “subscriber” is one line. The Company adds a subscriber to the subscribers list when it joins the service. A subscriber that pays in advance is added to the subscribers list only on the date the charge card is charged. 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. 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.

[5] 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.

[6] 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 revenues from roaming services and from hosting and network sharing revenue, and monthly revenues from repair services, but they do not include revenues from the sale of equipment.

[7] See Footnote 1 above.

[8] Relating to “active subscribers.”

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

4. **<u>Operational and financial indicators (KPIs)</u>**

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 December 31,		
	2023	2022	2021
Net income for the period	134	157	27
Taxes on income	56	45	12
Financing costs, net	140	155	165
Other expenses (income) that are not part of the Company's current activity	37	(15)	13
Depreciation and amortization	878	830	896
Losses from equity accounted investees	3	1	5
Share-based payment	24	24	15
Adjusted EBITDA	**1,272**	**1,197**	**1,133**

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,		
	2023	2022	2021
Net cash deriving from operating activities	1,173	1,076	1,052
Cash used for investment activities	(525)	(704)	(192)
Change in deposits (*)	(119)	120	(333)
Cash used for leases (financing activities)	(258)	(262)	(258)
Effect of exchange rate fluctuations on balances of cash and cash equivalents	1	-	(2)
Free cash flow	**272**	**230**	**267**

(*) Changes in deposits are not part of the company's free cash flow.

5. **Liquidity**

Below are the Board of Directors' explanations on the Company's liquidity position for the year ended at 31, December 2021, 2022 and 2023 (in NIS millions):

Section	2023	2022	2021	Board of directors' explanation
Balance of cash and cash equivalents as of the beginning of the period	773	644	719	
Cash flow deriving from current activities	1,173	1,076	1,052	Improvements in the adjusted EBITDA deriving from an increase in the Company's current revenues.
Cash flow used in investment activities	(525)	(704)	(192)	The decrease derives from a deposit for the payment of debenture fees offset from the increase in fixed asset investments.
Cash flow used in financing activities	(949)	(243)	(933)	Payments of debentures and lease payments in 2023. In 2022 debentures were issued to the sum of NIS 491 million.
Effect of exchange rate fluctuations on balances of cash and cash equivalents	1	-	(2)	
Balance of cash and cash equivalents as of the end of the period	473	773	644	

5.1. As of 31 December 2023, the Company has a negative working capital of NIS 346 million (consolidated) and a working capital deficit (solo) of NIS 1,140 million. Note that as of December 31 2023 the Group has frameworks for the provision of credit of NIS 300 million that have not yet been used (increased to NIS 450 million subsequent to the balance sheet date), as of the balance sheet date and the publication of this report, which were not taken into account within the framework of working capital. The working capital deficit in the Company's solo statement derives from the fact that all of the Company's debt is managed at the Company while some of the positive working capital is at fully controlled (100%) subsidiaries of the Company.

5.2. Taking into account the Company's cash balances, the free cash flow expected for two months from the current report date, in the credit frameworks mentioned above that have, as noted, not yet been used and in their renewal and in the Company's accessibility to future credit sources as of December 31 2023, in light of the reasons detailed above, the Company Board of Directors ruled that in spite of the working capital deficit as of December 31 2023, there is no liquidity problem at the Company and therefore, there are no warning signs as defined in Regulation 10.(b).(14) of the Reports Regulations.

6. **Financing sources**

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

For further details on the Company’s sources of financing, see Section 18 of Chapter A of this periodic report.

Details about the Company’s debentures and credit frames of the company are attached to this Board of Directors Report.

6.1. Company’s debentures in circulation- see Chapter C below.

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

6.3. Customers' credit- see section 16.1 in Chapter A of this periodic report.

Chapter B – Aspects of Corporate Governance

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

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

Accordingly, in 2022 the Company donated approximately NIS 620 and approximately 380 of the Company's employees participated in community volunteering.

In addition, at the beginning of the War, Cellcom stepped up to help customers across the country stay connected via mobile phone, internet and television and contribute to the security and rescue forces and evacuated residents across the country.

Cellcom informed that it was stopping TV and internet billings for all customers residing in the north and south of Israel who had been evacuated from their homes as a result of the war. In addition, Cellcom installed free internet and television in the homes residents of the Envelope had evacuated to in Tzur Yitzhak, gave cellular devices, SIM cards, modems, battery packs, chargers, laptop computers and more to evacuees from the south and associations working to assist them. Concurrently, Cellcom opened 5G internet access to its customers with supporting devices and opened internet access at speeds of 1 GB to all of its fiber optic customers with supporting infrastructure. In addition, Cellcom established a designated call center for residents who had been vacated from their homes and for the families of the murdered, fallen, hostages and missing, available at *5577.

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. Directors with accounting and financial expertise

The minimum number of directors with accounting and financial expertise appropriate for the Company, as determined by the Company's board of directors under Section 92(a)(12) of the

Companies Law, 5759-1999 (the "**Companies Law**"), is 2 directors, considering the nature of the accounting and accounting control matters that arise when preparing the Company's financial statements, the Company's areas of activity, its size and the scope and complexity of its activity. Currently, four directors with accounting and financial experience are serving in the Company's board of directors, Messrs. Gustavo Traiber, Shmuel Hauser, Baruch Itzhak and Eran Shenhar. For additional details with respect to these directors, Annex A in Chapter D to this Periodic Report.

10. **Independent directors and external directors**

As of the report date, the company's articles of association do not include any provision regarding the number of independent directors. As of the report date, two external directors serve the company: Professor Shmuel Hauser and Ms. Varda Liberman, as well as one independent director, as this term is defined in the Companies Law, Mr. Gustavo Traiber; see Schedule I to Chapter IV of this periodic report.

11. **Disclosure regarding on the Company's internal auditor**

11.1. Details of the internal auditor: CPA Itzhak Ravid has been serving as the Company's internal auditor since March 14, 2017. Mr. Ravid has a BA in Accounting and Economics from Tel Aviv University, serves as managing partner in the accounting firm Raveh-Ravid & Co., and has more than 30 years of experience in the field of internal auditing.

To the best of the Company's knowledge, the internal auditor is in compliance with Section 146(b) of the Companies Law, and with the provisions of Sections 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

The internal auditor is an external service provider for the Company on behalf of the offices of Raveh-Ravid & Co., where he serves as partner and co-owner. Apart from his role as the Company's internal auditor, Mr. Ravid serves as the internal auditor of Discount Investment Corporation Ltd. and Elron Ventures Ltd. To the best of the Company's knowledge, the internal auditor does not hold securities of the Company or of a company affiliated with it. To the best of the Company's knowledge, the internal auditor is not in a position that creates or may create a conflict of interest with his role.

11.2. Manner of appointment: The appointment of Mr. Itzhak Ravid was approved on March 14, 2017, at the Company's board of directors for a period of 3 years, after receiving the audit committee's approval. After an in-depth examination of his education and years-long experience, the board of directors found that Mr. Itzhak Ravid is suitable to serve as the

Company's internal auditor, *inter alia* considering the type of company, its size, the scope of its activity, and its complexity. At the end of such term the appointment was extended for additional one year terms, the last of which, as of the Report date, is until the end of 2023.

On November 14 2023 the Board of Directors decided, after a hearing at the Audit Committee, to extend the service of the Internal Auditor and ratify his appointment to the Audit Committee once every five years.

11.3. 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.

11.4. 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 2024 was approved by the audit committee in November 2023.

11.5. Auditing of the Company's material investee corporations: The internal auditor's audit plan includes reference to the Company's material investee corporations.

11.6. Scope of internal auditor's employment: In 2022 and 2023 the scope of the internal auditor's work was approximately 5,900 and 6,000 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.

11.7. 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.

11.8. 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.

11.9. 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 2023, the internal auditor submitted 6 audit reports to the Company, which are discussed at the audit committee once every quarter. In addition, each quarter the status of monitoring the implementation of recommendations that came up in internal audit reports is displayed.

11.10. The audit committee's evaluation of the internal auditor's activity: In the opinion of the audit committee, the scope, nature, and continuity of the internal auditor's activity and his working plan are reasonable under the circumstances, and they may achieve the goals of the internal audit.

11.11. Internal auditor compensation: The Internal Auditor is compensated based on his actual work hours. The Internal Auditor was paid a total of NIS 950,000 in 2023. 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.

12. Disclosure regarding the Company's auditor

12.1. Identity of the auditor

Until the end of May 2023, the Company's auditing accountants were Kesselman & Kesselman PWC, Certified Public Accountants, from 146 Menachem Begin Road, Tel Aviv, 6492103 ("the Auditing Accountants"). Starting June 2023 the accounting firm of Kost, Forrer, Ernst & Young (EY) was appointed to replace the previous auditing accountant.

12.2. Fees of the Auditing CPA

Below is the data regarding the fee paid to the Auditing CPAs for the audit and tax services and for other services provided to Group companies, as well as regarding working hours invested by the Auditing CPAs in 2021, 2022 and 2023:

12.2.1. Below are details on professional fees paid to the Auditing CPAs (in NIS thousands):

Year	For auditing and tax services	For other services
	NIS millions	Amount
2021	2.2	0.2
2022	2.3	0.4
2023	1.6	0.7

12.2.2. The auditing services include the audit of the Company's annual financial statements.

The tax services include professional services provided for purpose of the Company complying with the requirement of the tax authorities, including auditing original and amended tax returns, tax planning, and consulting, except in connection with auditing. The other services include *inter alia* accounting consulting in connection with the accounting treatment during the Company's ordinary course of business, consulting on the implications of implementing new accounting standards, and other accounting matters that occur from time to time, as well as special reports that require the approval of an auditing CPA with respect to conditions for complying with various tenders that the Group participates in.

The fee for the Company's Auditing CPA was determined in negotiations between the Auditing CPA and the Company's management, according to the estimated rate for providing the services, which is based on the number of hours invested by the Auditing CPA. The Auditing CPA's fees are approved by the Company's audit committee.

Chapter C - Disclosure with respect to Financial Reporting

13. Details in connection with debentures in circulation

13.1. Details in connection with liability certificates in circulation, as of December 31, 2023, are attached as an annex to the board of directors' report.

13.2. 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.

14. Material and highly material evaluations

Below are details about material and highly material evaluations, according to Regulation 8B(i) to the Report Regulations:

Evaluation for examining and evaluating goodwill in the Company's annual financial statements

Identifying the subject of evaluation:	The value of the mobile and fixed-line sectors' use for purpose of examining a devaluation in goodwill set forth in the consolidated annual financial statements as of December 31, 2023, according to International Accounting Standard 36.
Timing of the evaluation:	31-Dec-2023 Evaluation executed on March 11, 2024

The value of the evaluation's subject that was determined right before the evaluation date:	NIS 1,809 million bookkeeper's value of the fixed-line sector, goodwill of NIS 732 million. NIS 3,063 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 2,385 million value of the fixed-line sector. NIS 3,418 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 – 9% Growth rate – 1.5% for mobile sector and 1% for line-based sector. With respect to additional assumptions of the appraiser, see details in the work attached as an annex to this board of directors report.

March 11, 2024

Daniel Sapir	**Nataly Mishan- Zakai**
CEO	**Chairman of the Board**

Annex - Details Regarding debentures in Circulation as of the Report Date

1. Details Regarding debentures in Circulation: (NIS million)

Series (**)	Date of issue	Par value on the issue date (in NIS millions)	Par value on 31 December, 2023	Par value on December 31, 2023, including linkage	Accrued interest	Financial statements balance as of December 31, 2023	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	169.429	167.266	1.645	168.911	167.924	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	225.123	222.963	4.571	227.534	223.930	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	63.845	63.687	0.767	64.454	64.226	Annual interest of 2.45%.	On July 5 of 2021 until 2026 (including).	On January 5 and July 5, every year from 2017 until 2026 (including)	Linked (principal and interest) to the Consumer Price Index	No	Subject to certain terms
Series K	September 25, 2016; July 1, 2018*; December 10, 2018*	710.634	390.849	389.761	6.805	396.566	383.149	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*, July 12, 2022	1,235.937	1,130.482	1,099.504	27.875	1,127.379	878.802	Annual interest of 2.50%.	On January 5 of 2023 until 2028 (including).	On January 5 every year from 2019 until 2028 (including)	Not Linked	No	Subject to certain terms
Series M	September 8, 2022	394.915	394.915	391.464	9.161	400.625	390.966	Annual interest of 4.73%.	On January 5 of 2025 until 2030 (including).	On January 5 every year from 2023 until 2030 (including)	Not Linked	No	Subject to certain terms
Total		4,198.387	2,374.643	2,334.645	50.824	2,385.469	2,106.997						

(*) On these dates the debenture series were expanded. The information appearing in the table refers to the full series.

(**) As of December 31, 2023, the Company's debentures (Series H, I, K, L and M) are material and constitute more than 5% of the Company's total liabilities as presented in the Financial Statements. Similarly, as of December 31, 2023, the Company's net debt to adjusted EBITDA[9] ratio was 1.48 including the total interest accrued in the books. There was no cause for early redemption in the Report Period.

(1) Semi-annual payments, with the exception of debentures (series L) where the payment is annual.

(2) In February, 2016, in accordance with an exchange offer of the Company's debentures (Series H and I) in part of the Company's debentures (Series D and E), respectively, the Company replaced a principal in the amount of NIS 555 million. The Company's debentures (Series D) in the fund in the amount of NIS 844 million of the Company's debentures (Series H) and a fund in the amount of NIS 272 million in the Company's debentures (Series E) in the fund in the amount of approximately NIS 335 million of the Company's debentures (Series I). The Company's debentures (Series D and E) fully paid in July 2017 and January 2017, respectively.

(3) In December 2019, the Company made an acquisition of debentures (Series L) of the Company in the amount of approximately NIS 10 million.

(4) In May 2020, the Company issued debentures (Series L) with a par value of approximately NIS 222 million.

(5) In December 2020, the Company issued debentures (Series L) with a par value of approximately NIS 400 million.

(6) In July 2022, after the date of the financial statements, the company expanded the series L with par value of NIS 105 million. For details, see note 18 to the financial statements.

(7) In September 2022, the company issued debentures (Series M) in the amount of NIS 395 million par value. For details, see note 18 to the financial statements.

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 Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series L	Strauss Lazer, Trust Company (1992) Ltd.	CPA Ori Lazer	email: ori@slcpa.co.il Tel: 03-6237777	94 Yigal Alon Street, Tel Aviv 6789139
Series M	Strauss Lazer, Trust Company (1992) Ltd.	CPA Ori Lazer	email: ori@slcpa.co.il Tel: 03-6237777	94 Yigal Alon Street, Tel Aviv 6789139

[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 regard, "net debt" is defined as credit and loans from banking corporations and from banking corporations as well as liabilities with respect to debentures, after deducting cash and cash equivalents, deposits (with the exception of restricted deposits against bank guarantees) and current investments in marketable securities.
"Adjusted EBIDTA" – see the definition in Section 4.1 above.

3. <u>Details regarding the rating of the debentures</u>:

Series	Name of rating company	Rating as of the issue date	Rating as of the Report date	Additional ratings between the issue and Report date		Details regarding the intention of the rating company to change the rating
				Rating dates(1)	**The rating**	
Series H	Maalot Standard & Poor's Ltd. ("**Maalot**")	A+	A	06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020 ,08/2021, 08/2022, 08/2023,11/2023 (1)	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, 08/2022, 08/2023,11/2023 (1)	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, 08/2022, 08/2023,11/2023 (1)	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, 08/2022, 08/2023,11/2023 (1)	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, 07/2022, 08/2022, 08/2023, 11/2023 (1)	A+, A	
Series M	Maalot	A	A	08/2022, 09/2022, 08/2023 ,11/2023 (1)	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. In August 2022 Maalot updated the Company's rating forecast from a rating of A Stable Outlook to a rating of A Positive Outlook. In September 2022 Maalot ratified the Company's rating of A Positive Outlook. In August 2023 Maalot updated the Company's rating forecast from a rating of ilA Positive Outlook to a rating of ilA+ Stable Outlook. In September 2023 Maalot ratified the Company's rating of A+ Stable Outlook.

4. Additional undertakings:

4.1. The Company's debentures (Series H to M) are not secured and include, in addition to accepted terms and undertakings, the following undertakings:

a. A negative pledge undertaking, subject to certain exceptions. Failure to comply with this undertaking shall be deemed a cause for acceleration.

b. An undertaking not to distribute more than 95% of the profits suitable for distribution under the Companies Law (the "**Profits**"); provided that (1) should the Company's net debt to EBITDA[8] ratio exceed the ratio of 3.5:1, the Company shall not distribute more than 85% of the Profits; (2) should the Company's net debt to EBITDA ratio exceed 4:1, the Company shall not distribute more than 70 of the Profits; and (3) should the Company's net debt to EBITDA ration exceed 5:1, or 4.5:1 during four consecutive quarters, and/or if the Company equity will be less than NIS 700 million, for two consecutive quarters (Series M only), the Company shall not distribute dividends.

c. And undertaking to rate the debentures through a rating company (insofar as this is under the Company's control).

d. An undertaking to pay additional interest of 0.25% for a two-point decrease in the rating of the debentures Series H to K, and 0.5% for a two point decrease in the rating of debentures Series L, and additional interest of 0.25% for any one point decrease in the rating of the debentures until the maximum addition of 1%, compared to their rating before their issue.

e. The Company's undertaking not to issue additional debentures of any series should the Company not meet the financial criteria, or if such issue would cause a decrease in the rating of the debentures.

4.2. In addition, the Company's debentures include events of default, including:

a. Accelerating a different debt of the Company (cross default) by a non-supplier lender, except with respect to a debt of NIS 150 million or less. Such debt acceleration restriction shall not apply to a cross default caused by a different series of Company debentures.

b. A case where the Company shall cease to be active in the cellular communications area and/or ceased to hold its Cellular License for a period exceeding 60 days.

c. Trading suspension of the debentures on the Tel Aviv Stock Exchange, for a period exceeding 45 days.

d. Making a distribution that does not comply with the Company's undertaking with respect to the restrictions on distributing profits.

e. Failure to rate the debentures for a period exceeding 60 days.

f. A court request or order to stay proceedings against the Company or submitting a motion for a creditor's settlement.

g. Selling a substantive part of the Company's assets or a merger (except for certain exceptions).

h. Failure to publish financial statements on time.

i. A net debt to EBITDA ratio that exceeds 5:1, or that exceeds 4.5:1 during four consecutive quarters.

j. Failure to comply with the Company's undertaking not to create any pledges.

k. A material deterioration in the Company's business compared to the condition thereof on the issue date of the debentures, and real concern that the Company would not be able to repay the debentures on time.
l. A substantial concern that the Company shall not meet, its material obligations towards the debenture holders.
m. Including a note in the Company's financial statements regarding a concern of the Company continued existence as a "going concern" for a period of two consecutive quarters.
n. Violating the Company's undertaking with respect to the issue of additional debentures.

4.3. The Company's credit frameworks include as a rule, violation events similar to those detailed in Section 4.2 above.

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Cellcom Israel Ltd.

Consolidated Financial Statements

As at December 31, 2023 (Audited)

Kost Forer Gabbay & Kasierer
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Contents

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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.

AUDITORS' REPORT

To the Shareholders of

CELLCOM ISRAEL LTD.

We have audited the accompanying consolidated statement of financial position of Cellcom Israel Ltd. ("the Company") as of December 31, 2023 and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended. 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.

The consolidated statement of financial position as of December 31, 2022 and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the two years ended December 31, 2022 and 2021 were audited by another auditor whose report dated March 8, 2023 expressed an unqualified opinion thereon.

We did not audit the financial statements of companies accounted for at equity, the investment in which amounted to NIS 129 million as of December 31, 2023, and the Company's share of their losses amounted to NIS 3 million for the year ended December 31, 2023. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, as far as it relates to amounts included for those companies, is based 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 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 subsidiaries as of December 31, 2023, and the results of their operations, changes in equity and their cash flows for the year then ended, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

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Key audit matters

The key audit matters described below were those which were communicated to the Company's board of directors, or should have been communicated to them and which, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters include, among others, any matter: (1) relating to, or potentially relating to, significant accounts or disclosures in the financial statements or (2) involving our judgment that was especially challenging, subjective or complex. These matters were addressed as part of our audit of the consolidated financial statements as a whole and in forming our opinion thereon. In communicating these matters below, we do not change our opinion on the consolidated financial statements as a whole, nor do we provide through such communication a separate opinion on these matters or the accounts or disclosures they relate to.

Testing the impairment of goodwill

As described in Note 13 to the consolidated financial statements, the carrying amount of goodwill as of December 31, 2023 was NIS 1,563 million, accounting for 24% of the Group's total assets. The Company's management evaluates goodwill for impairment once a year, as of December 31, or more frequently if events or changes in circumstances indicate impairment. Evaluating the impairment of goodwill is determined by examining the recoverable amount of the cash-generating unit to which goodwill has been allocated. If the recoverable amount is less than the carrying amount an impairment loss is recognized and is first allocated to goodwill. Due to the significant judgments required by management and those charged with corporate governance and the complexity of the forecast estimates included in the underlying assessment of the periodic impairment, we identified this as a key audit matter.

The audit procedures performed in response to the key audit matter

The main procedures we performed in relation to this key matter in our audit are:

1. We reviewed the assumptions, methods and information used by the Group to determine the recoverable amount by comparing them to external information such as: inflation rates, discount rates and expected growth rates.

2. We examined the completeness and accuracy of the basic data used in the model and confirmed that the cash flow forecasts used to estimate the value are consistent with the information approved by management and the board of directors.

3. We conducted a sensitivity analysis to assess the sensitivity to changes in key variables and how changes in key variables would impact potential impairment.

4. We worked with an appraiser from the audit team to help us examine the study.

5. Assess and evaluate the competence, abilities and objectiveness of the Group's appraisers.

6. We have also tested the effectiveness of the Group's internal control in evaluating the impairment of goodwill and the appropriateness of the disclosures in the financial statements.

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We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2023 and our report dated March 11, 2024 expressed an unqualified opinion on the effective existence of those components.

Tel-Aviv, Israel
March 11, 2024

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Auditor's Report

to the Shareholders of

Cellcom Israel Ltd.

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Cellcom Israel Ltd. and its subsidiaries (collectively, "the Company") as of December 31, 2023. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report as of the above date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard (Israel) 911"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) controls over revenue; (3) controls over goodwill (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

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Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2023.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2023, and for the year then ended and our report dated march 11, 2024 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 11, 2024

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Consolidated Statements of Financial Position

	Note	December 31 2022	December 31 2023
		NIS millions	
Current assets			
Cash and cash equivalents	9	773	**473**
Current deposits		143	**24**
Trade receivables	10	869	**914**
Current tax assets	29	9	**9**
Other receivables, includes derivatives	10	35	**28**
Deferred expenses - rights of use	30C	66	**73**
Inventory	11	117	**114**
		2,012	**1,635**
Non-current assets			
Trade and other receivables	10	211	**200**
Deferred expenses - rights of use	30C	340	**353**
Property, plant and equipment, net	12	1,480	**1,535**
Intangible assets and others, net	13	2,154	**2,145**
Investments in equity accounted investees	8	131	**129**
Right of use assets, net	14	665	**618**
Deferred tax assets	29	5	**5**
		4,986	**4,985**
		6,998	**6,620**
Current liabilities			
Current maturities of debentures	18	587	**596**
Current taxation liabilities	29	4	**1**
Current maturities of lease liabilities	14	185	**185**
Trade payables and accrued expenses	15	791	**811**
Provisions	16	83	**95**
Other payables, including derivatives	17	274	**293**
		1,924	**1,981**
Non-current liabilities			
Debentures	18	2,317	**1,739**
Long-term lease liabilities	14	521	**470**
Provisions	16	24	**24**
Other long-term liabilities		32	**17**
Liability for employee rights upon retirement, net	19	10	**14**
Deferred tax liabilities	29	66	**112**
		2,970	**2,376**
		4,894	**4,357**
Equity			
Total equity	20	2,104	**2,263**
		6,998	**6,620**

The accompanying notes are an integral part of these consolidated financial statements.

March 11, 2024			
Date of approving the financial statements	Nataly Mishan-Zakai Chairman of the board	Daniel Sapir CEO	Gadi Attias CFO

Consolidated Statements of Income and loss

	Note	For year ended December 31, 2021	2022	2023
		NIS millions		
Revenues	23	4,100	4,300	**4,398**
Cost of revenues	24	(2,963)	(3,034)	**(3,059)**
Gross profit		1,137	1,266	**1,339**
Selling and marketing expenses	25	(666)	(650)	**(695)**
General and administrative expenses	26	(301)	(300)	**(309)**
Credit profits (losses)		(5)	(2)	**2**
Other income (expenses), net	27	44	44	**(4)**
Operating profit		209	358	**333**
Financing income		3	27	**25**
Financing expenses		(168)	(182)	**(165)**
Financing expenses, net	28	(165)	(155)	**(140)**
Share in losses of equity accounted investees		(5)	(1)	**(3)**
Profit before taxes on income		39	202	**190**
taxes on income	29	(12)	(45)	**(56)**
Net profit		27	157	**134**
Profit per share				
Basic profit per share (in NIS)	20	0.17	0.96	**0.81**
Diluted profit per share (in NIS)		0.16	0.95	**0.81**
Weighted-average number of shares used in the calculation of basic profit per share (in shares)		162,775,715	164,050,212	**164,928,168**
Weighted-average number of shares used in the calculation of diluted profit per share (in shares)		163,672,339	166,191,036	**165,752,011**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Net profit	27	157	**134**
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	1	1	**-**
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Re-measurement of defined benefit plan, net of tax	(2)	1	**1**
Total other comprehensive profit (loss) for the year, net of tax	(1)	2	**1**
Total comprehensive profit	26	159	**135**

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	Capital reserve	Retained earnings	Total equity
	NIS millions				
Balance as of January 1, 2021	2	792	(2)	1,088	1,880
Comprehensive profit					
Net profit	-	-	-	27	27
Other comprehensive profit (loss) for the year, net of tax	-	-	1	(2)	(1)
Share based payments	-	-	-	15	15
Balance as of December 31, 2021	**2**	**792**	**(1)**	**1,128**	**1,921**
Comprehensive loss					
Net profit	-	-	-	157	157
Other comprehensive profit, net of tax	-	-	1	1	2
Share based payments	-	-	-	24	24
Balance as of December 31, 2022	**2**	**792** -	-	**1,310**	**2,104**
Comprehensive Profit					
Net profit	-	-	-	**134**	**134**
Other comprehensive profit , net of tax	-	-	-	**1**	**1**
Share based payments	-	-	-	**24**	**24**
Balance as of December 31, 2023	**2**	**792**	-	**1,469**	**2,263**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Cash flows from operating activities:			
Profit for the year	27	157	**134**
Adjustments for:			
Depreciation and amortization	896	830	**878**
Share-based payments	15	24	**24**
Net change in fair value of investment property	7	8	**1**
Tax expenses	12	45	**56**
Financing expenses, net	165	155	**140**
Other income	(8)	-	**(1)**
Share in losses of equity accounted investees	5	1	**3**
Changes in operating assets and liabilities:			
Change in inventory	(15)	(29)	**3**
Change in trade receivables (including long-term amounts)	54	(34)	**(29)**
Change in deffered expenses - right of use	(77)	(75)	**(83)**
Change in other receivables (including long-term receivables)	5	11	**(12)**
Change in trade payables, accrued expenses and provisions	(23)	(57)	**50**
Change in other liabilities (including long-term amounts)	2	48	**9**
Payments for derivative hedging contracts, net	(5)	4	**14**
Income tax paid	(8)	(12)	**(14)**
Net cash from operating activities	1,052	1,076	**1,173**
Cash flows used in investing activities			
Acquisition of property, plant and equipment	(366)	(335)	**(427)**
Acquisition of intangible assets and others	(232)	(257)	**(236)**
Deposit	-	(120)	**(1)**
Withdrawal of deposits and current investment	407	-	**120**
Payments from other derivative contracts, net	(2)	-	**-**
Interest received	1	8	**19**
Net cash used in investing activities	(192)	(704)	**(525)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows (cont'd)

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Cash flows used in financing activities			
Receipts for derivative contracts, net	2	5	**2**
Payments for long-term loans from financial institutions	(188)	-	**-**
Payment of debentures	(389)	(396)	**(604)**
Proceeds from issuance of debentures, net of issuance costs	-	491	**-**
Interest paid for debentures	(100)	(82)	**(89)**
Interest paid for leases	(23)	(28)	**(29)**
Payment of principal of lease liabilities	(235)	(233)	**(229)**
Net cash used in financing activities	(933)	(243)	**(949)**
Changes in cash and cash equivalents	(75)	129	**(301)**
Cash and cash equivalents for the beginning of the year	719	644	**773**
Effects of exchange rate changes on cash and cash equivalents	(2)	-	**1**
Cash and cash equivalents for the end of the year	644	773	**473**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the 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 Company's shares are traded on the Tel Aviv Stock Exchange (TASE). The consolidated financial statements of the Group as at December 31, 2023, 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."). DIC is a company without a controlling shareholdersת the securities of which are traded on the Stock Exchange.

B. Over the course of December 2023, DIC entered into an agreement with Fortissimo Capital Fund VI, L.P. ("Fortissimo") to sell all of its holdings in the Company's shares. As of the approval date of the Consolidated Financial Statements, no certainty exists regarding the completion of the transaction, completion of the transaction is subject to receiving the approval of the Ministry of Communications and the Antitrust Commissioner.

C. Iron Swords War

The Iron Swords War broke out in October 2023 (hereinafter: "the War"). The War's continuation led to a drop in incoming and outgoing tourism, which led to a drop in the Company's revenues from roaming services. In addition, due to the War, there was a drop in the Company's revenues from prepaid cellular services. The implication of the impact of the War described above was an impact of NIS 20 million in the Group's operating profit for 2023.

The Company examined its sources of finance and liquidity as well as the Company's access to future sources of credit, and estimates that it has the financial fortitude to face the implications of the War, among other things in light of the diversification of its areas of activity and the scope of its liquid balances.

After the reporting period and until the approval date of the Consolidated Financial Statements, as a result of the war continuing, there is continued damage to incoming and outgoing tourism and prepaid cellular services.

Note that as this is an ongoing crisis event that is not under the Company's control, which is characterized by uncertainty, as of the Financial Statements date there is no certainty regarding the scope of the impact on the Company and on the Israeli economy as a whole. Such lateral impacts may have a negative impact on the Group's business and its operating 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).

The consolidated financial statements have also been prepared with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

These consolidated financial statements were approved by the Company's Board of Directors on March 11, 2024.

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.

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 31. 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:

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments (cont'd)

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 22.

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(E).

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(B) and 3(D).

Impairment testing of goodwill

The Group reviews a cash generating unit containing goodwill for the purpose of testing it for impairment at least once a year. Determining the recoverable amount requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows which represents market estimates as for the time value of the money and the specific risks that are related to the cash-generating unit. Determining the estimates of the future cash flows is based on management past experience and management best estimates as for the economic conditions that will exist over the rest of the remaining useful life of the cash generating unit. See also Note 3(E).

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 31.

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 and linkage 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

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments (cont'd)

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 29.

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 29.

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.

E. Exchange rates and known Consumer Price Indexes are as follows:

	Exchange rates of US$	**Consumer Price Index (points)***
As of December 31, 2023	**3.627**	**248.82**
As of December 31, 2022	3.519	240.77
As of December 31, 2021	3.110	228.70
Change during the year:		
Year ended December 31, 2023	**3.07%**	**3.35%**
Year ended December 31, 2022	13.15%	5.28%
Year ended December 31, 2021	(3.27)%	2.40%

*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. Financial instruments

(1) Non-derivative financial assets

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.

The Group has balances of trade other receivables and deposits. 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.

(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.

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.

Note 3 - Significant Accounting Policies (cont'd)

A. **Financial instruments** (cont'd)

(3) **Derivative financial instruments**

The Group holds derivative financial instruments for the purpose of hedging transactions of currency and consumer price index risks.

Measuring derivative financial instruments
Derivatives financial instruments are recognized initially at fair value of the derivative contract, and remeasured at fair value in subsequent periods. Attributable transaction costs are recognized in profit and loss as incurred. Changes in fair value are accounted for as described below:

Fair value hedging
Changes in fair value of a derivative financial instruments used for hedging transactions are recognized to profit and loss to the financing expenses section.

Fair value hedging
Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies or CPI-linked. Changes in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

B. **Fixed asset**

Fixed asset items are presented at cost less accumulated depreciation and accumulated impairment losses to the extent there were any.

(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.

Note 3 - Significant Accounting Policies (cont'd)

B. Fixed asset (cont'd)

(2) Depreciation

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.

The annual depreciation rates for the current and comparative periods are as follows:

	%
Communications network	5-25
Equipment and infrastructure for television services	15-33
Vehicles, Computers, Furniture and Landline communications equipment	6-33

The economic life of the group's assets is determined by the company's management at the time the assets are purchased. For more details, see note 2D.

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the expected lease terms.

C. Rights of use of communications lines and right of use of fiber-optic infrastructure

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.

D. Intangible assets and others

(1) Program development

The company develops software or upgrades existing software systems which are used by it for the benefit of its business and internal organizational activities . 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.

Note 3 - Significant Accounting Policies (cont'd)

D. Intangible assets and others (cont'd)

(1) Program development (cont'd)

Development costs not yet available for use are examined once per year in order to identify impairment, according to IFRS 36 “Impairment of Assets”.

(2) 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.

(3) Depreciation

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.

The annual amortization rates for the current and comparative periods are as follows:

	%	
Frequencies Licenses	4-7	(mainly 4)
Software and computer licenses	15-25	
Customer acquisition costs	33	
Customer relationship and brand	10-16	

Depreciation methods, useful lives and residual values are reviewed at least each year-end and adjusted if appropriate.

The economic life of the group's assets is determined by the company's management at the time the assets are purchased. For more details, see note 2D.

E. Impairment

(1) Non-derivative financial assets

Financial assets and contract assets

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

E. Impairment (cont'd)

(1) Non-derivative financial assets (cont'd)

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.

Write-off

The gross book value of a financial asset is deleted in full or in part when:

a. There are no reasonable expectations of recovery. In general, when the Group determines that the debtor has no assets or sources of income that generate sufficient cash flows in order to pay the sums subject to deletion.

b. The Company transfers in a material sense all of the risks and benefits deriving from the contractual rights to receive cash flows from the financial asset or when some of the risks and benefits when transferring the financial asset remain in the Company's hands but one may say that it has transferred control of the asset.

Factoring transactions are treated as subtractions from the customers balance when the above conditions apply.

(2) Fixed assets, Intangible assets and others

Timing of impairment testing

Impairment testing for cash generating units (or group of cash generating units), to which goodwill has been attributed, is performed once per year, and at any time there is indication for impairment of the unit, or by compared the carrying value of the unit, including goodwill, to its recoverable amount.

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”).

Note 3 - Significant Accounting Policies (cont'd)

E. Impairment (cont'd)

(2) Fixed assets, Intangible assets and others (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

F. Share-based payment

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.

G. 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.

A provision for liquidation costs, site evacuation and restoral was created for those agreements in which the Group undertook to restore the rented asset at the end of the retail period to its previous state, after disassembling and vacating the site as well as restoring the site as needed. For further details see Note 16.

H. 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.

Note 3 - Significant Accounting Policies (cont'd)

H. Recognition of revenue (cont'd)

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.

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 considers 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.

Existence of a significant financing component

The company has long-term credit transactions for the sale of cellular equipment. In order to measure these transactions, 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 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.

Note 3 - Significant Accounting Policies (cont'd)

H. Recognition of revenue (cont'd)

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.

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 to provide goods or services by a third party 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.

I. 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)

I. Lease payments (cont'd)

(2) Leased assets and lease liabilities

Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments, and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments.

Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the Group is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

Variable lease payments that are linked to the CPI are initially measured by using the index known at the beginning of the lease, and are included in calculating the liability for lease. When there is a change in the cash flow of the lease as result of change to the index, the Group remeasures the liability for the lease based on updated contractual cash flows, as an adjustment to the right of use asset.

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively. According to past experience the Company estimated that the options for extending the contracts shall be exercised.
The group reassesses the lease period upon the occurrence of a significant event or a significant change in circumstances that is within the group’s control and which affects the decision as to whether it is reasonably certain that the group will or will not exercise an option that was not previously included when determining the lease period.

(4) Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

• Cell and switches sites	5-15 years
• Office buildings, warehouses, service centers and retail stores	4-10 years
• Motor vehicles	2-3 years

Note 3 - Significant Accounting Policies (cont'd)

J. 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 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.

Note 3 - Significant Accounting Policies (cont'd)

K. New standard amendments adopted

1. Amendment to International Accounting Standard 1 - Presentation of Financial Statements, “Disclosure of Accounting Policy” (hereinafter - the Amendment to IAS 1)

The Amendment to IAS 1 requires companies to disclose their material accounting policy rather than their significant accounting policy. According to the amendment, information about the accounting policy is material if, when considered together with other information provided in the financial statements, it can reasonably be expected that it will influence decisions that the primary users of the financial statements make on the basis of these financial statements.

The Amendment to IAS 1 even clarifies that information about the accounting policy is expected to be material if, without it, the users of the financial statements are prevented from understanding other material information in the financial statements. In addition, the amendment clarifies that there is no need to disclose information about an immaterial accounting policy. However, inasmuch as such information is provided, it should not draw away from material information about accounting policy.

The Amendment to IAS 1 was applied for annual periods beginning on or after 1 January 2023. The above amendment had an impact on the disclosure of the Company's accounting policy, but it had no impact on the measurement, recognition of presentation of any items in the Company's Consolidated Financial Statements.

2. Amendments to IAS 12, *Deferred Tax*

The amendment introduces a further exception from the initial recognition exemption. Under the amendment, the entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendment to IAS 12, the entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.
The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

Note 3 - Significant Accounting Policies (cont'd)

K. New standards and amendments (cont'd)

2. Amendments to IAS 12, *Deferred Tax* (cont'd)

(a) To recognize 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 recognize 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. The application does not have a material effect on the consolidated financial statements of the group.

3. Amendment to IAS 8, Accounting Policy, Changes in Accounting Estimates and Errors

In February 2021, the IASB published an amendment to International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors (hereinafter the **"Amendment"**). The purpose of the Amendment is to present a new definition of the term "accounting estimates."

Accounting estimates are defined as "monetary amounts in the financial statements that are subject to uncertainty in measurement." The Amendment clarifies what changes in accounting estimates are, and how these differ from changes in the accounting policy or correction of errors.

The Amendment was prospectively adopted with respect to annual periods starting January 1, 2023 or afterwards, and applies to changes in accounting policy and accounting estimates that occur at the beginning of or after such period.

The foregoing Amendment had no material effect on the Company's interim consolidated financial statements.

Note 3 - Significant Accounting Policies (cont'd)

L. New standard 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.

This amendment should be applied for annual periods beginning on or after 1 January 2024. The application is not expected to have a material effect on the consolidated financial statements of the group.

2. Amendment to IAS 1, *Financial Reporting Standards*

In January 2020, the IASB published a revision to IAS 1 on requirements to classify liabilities as current or non-current (hereinafter – the Original Amendment). In October 2022 the IASB published a consecutive amendment to the above amendment (hereinafter – the Consecutive Amendment).

The Consecutive Amendment stated that:

(a) Only financial criteria that an entity must uphold at the end of the reported period of prior to this impact the classification of that liability as a current liability or non-current liability.

(b) For liabilities the examination of which examination of compliance with financial criteria is tested in the 12 months consecutive to the reporting date, disclosure must be provided in a manner that will allow users of the Financial Statements to assess the risks for that liability. Meaning that the consecutive correction states that disclosure must be provided for the book value of the liability, as well as information on financial criteria and facts and circumstances at the end of the reporting period that may lead to the conclusion that the entity will have difficulty meeting the Financial criteria.

The Original Amendment established that the conversion rights of a liability will impact the classification of the liability as a whole as a current or non-current liability, except in cases in which the conversion component is capital-based. The Original Amendment and the Consecutive Amendment have been implemented for yearly reporting periods starting January 1 2024 or subsequently. Early application is possible. The Amendments have been applied retroactively.

That the above revision will not have a material impact on the Company's Consolidated Financial Statements.

Note 3 - Significant Accounting Policies (cont'd)

L. New standard amendments not yet adopted (cont'd)

3. Amendments to International Financial Reporting Standard 7, Statement of Cash Flows, and International Financial Reporting Standard 7, Financial Instruments: Disclosures

In May 2023, the IASB published amendments to International Financial Reporting Standard 7, Statement of Cash Flows, and International Financial Reporting Standard 7, Financial Instruments: Disclosures (hereinafter the **"Amendments"**), in order to clarify the characteristics of supplier finance arrangements and require additional disclosure on such arrangements.

The disclosure requirements in the Amendments were designed to assist and enable users of financial statements to assess the effects of supplier finance arrangements on the entity's liabilities as well as the entity's cash flows and exposure to liquidity risk.

The Amendments shall be applied for annual periods starting January 1, 2024, or afterwards. Early adoption is possible, subject to disclosure.

The 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.

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.

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 22, 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.

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.

Credit risk (cont'd)

Assessment of expected credit losses for corporate customers
The Group records credit losses provision 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 30, regarding Commitments.

Market risk
In the ordinary course of business, the Group carries out derivative transactions, 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 related to the sale of cellular equipment 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.

Capital management

The Group's capital management aim is to ensure a sound and efficient capital structure which takes into consideration, among others, the following factors:

A gearing ratio that supports the Group's cash flow needs with respect to its potential cash flow generation and also supporting its dividend policy, considering the limitation imposed on dividend distribution as established in the indenture of the Group's Series H - M debentures and in the Company's loan agreements, while maintaining a Net Debt to Adjusted EBITDA* ratio as established in such documents. The Group considers Net Debt to Adjusted EBITDA ratio to be an important measure for investors, debentures holders, analysts, and rating agencies. This ratio is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The Group's debt mainly consists of short and long-term debentures traded publicly in the Tel Aviv Stock Exchange.

* 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.

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). The CODM does not review the balance of assets or liabilities for these segments, therefor they are not presented.

- Cellular segment - the segment includes 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, supplemental services and electricity services.

Note 6 - Operating Segments (cont'd)

	Year ended December 31, 2023 NIS millions				
	Cellular	**Fixed-line**	**Reconciliation for consolidation**	**Consolidated**	**Reconciliation of subtotal adjusted segment EBITDA to profit for year**
Externals revenues	**2,875**	**1,523**	**-**	**4,398**	
Inter-segment revenues	**15**	**142**	**(157)**	**-**	
*** Adjusted segment EBITDA**	**833**	**439**			**1,272**
Depreciation and amortization					**(878)**
Share based payments					**(24)**
Other expenses					**(37)**
Financing income					**25**
Financing expenses					**(165)**
Share in losses of accounted investees					**(3)**
Tax on income					**(56)**
Net profit					**134**

	Year ended December 31, 2022 NIS millions				
	Cellular	**Fixed-line**	**Reconciliation for consolidation**	**Consolidated**	**Reconciliation of subtotal adjusted segment EBITDA to profit for year**
Externals revenues	2,887	1,413	-	4,300	
Inter-segment revenues	14	141	(155)	-	
*** Adjusted segment EBITDA**	768	429			1,197
Depreciation and amortization					(830)
Share-based payments					(24)
Other income					15
Financing income					27
Financing expenses					(182)
Share in losses of accounted investees					(1)
Tax on income					(45)
Net profit					157

Note 6 - Operating Segments (cont'd)

	Year ended December 31, 2021				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to 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					(13)
Financing income					3
Financing expenses					(168)
Share in losses of accounted investees					(5)
Tax on income					(12)
Net profit					27

* Adjusted segment EBITDA as reviewed by the Group's CODM, represents earnings before interest (financing expenses, net), taxes, other income (expenses) not part of the Company's current activity, depreciation and amortization, profits (losses) of equity account investees and share based payments. In addition, it includes other income (expenses) that are part of the company's current activities, such as interest income for sale transactions in installments and expenses for a voluntary retirement plan. Adjusted Segment EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies.

Note 7 – Subsidiaries

Presented hereunder is a list of the Group's significant subsidiaries:

Name of subsidiary	Principal location of the subsidiary's	The Group's ownership interest in the subsidiary for the year ended December 31	
		2022	**2023**
Cellcom Fixed Line Communication L.P.	Israel	100%	**100%**
Dynamica Cellular Ltd.	Israel	100%	**100%**
Golan Telecom Ltd.	Israel	100%	**100%**

Note 8 - Equity Accounted Investees and Joint Operations

	As of December 31	
	2022	2023
	NIS millions	
Investment in equity accounted investees:		
Investment share capital	160	**160**
Share in losses of equity accountes investees	(13)	**(16)**
Unrealized profit and other	(16)	**(15)**
	131	**129**

Note 9 - Cash and Cash Equivalents

Composition:

	As of December 31	
	2022	2023
	NIS millions	
Cash balances available for immediate use	105	**106**
Cash equivalents- short term deposits	668	**367**
	773	**473**

Cash equivalents include short-term highly liquid 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 deposits bear at an average interest rate of about 4.4%.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 22.

Note 10 - Trade and Other Receivables

Composition

	As of December 31	
	2022	2023
	NIS millions	
Current		
Trade Receivables *		
Open accounts	306	**363**
Checks and credit cards receivables	244	**203**
Accured income	103	**106**
Current maturity of long-term receivables	216	**242**
	869	**914**
Other Receivables		
Prepaid expenses	24	**22**
Other	11	**6**
	35	**28**
	904	**942**
Non-current		
Trade Receivables **	184	**170**
Other	27	**30**
	211	**200**
	1,115	**1,142**

* Net of allowance for doubtful debts see note 22.

** Non-current trade receivables balances are in respect of equipment sold in installments (mainly 36 monthly payments) which current amount as of December 31, 2023, is calculated at a 5.65% annual discount rate (December 31, 2022 - 4.3%).

Note 11 - Inventory

Inventory of cellular phone equipment, accessories and spare-parts are measured at the lower of cost and net realizable value.

A. Composition

	As of December 31	
	2022	2023
	NIS millions	
Handsets	63	**72**
Accessories	32	**22**
Spare parts	22	**20**
	117	**114**

B. The Group is testing slow moving inventory for impairment. In the framework of the test conducted in 2023 impairment was credited in the amount of NIS 3 million (2022 - NIS 2 million). The write-down is included in Cost of revenues.

Note 12 - Property, Plant and Equipment, net

Composition:

	Communication network	Communication equipment and infrastructure	,Vehicles ,computers furniture and other equipment	Leasehold improvements	Total
	NIS millions				
Cost					
Balance as of January 1, 2022	5,490	593	171	65	6,319
Additions	310	102	31	2	445
Deductions	(9)	(165)	(82)	(21)	(277)
Balance as of December 31, 2022	5,791	530	120	46	6,487
Additions	**257**	**127**	**21**	**6**	**411**
Deductions	**(5)**	**(46)**	**(9)**	**(10)**	**(70)**
Balance as of December 31, 2023	**6,043**	**611**	**132**	**42**	**6,828**
Accumulated depreciation					
Balance as of January 1, 2022	4,406	359	118	53	4,936
Depreciation for the year	223	98	20	7	348
Deduction of depreciation	(9)	(165)	(82)	(21)	(277)
Balance as of December 31, 2022	4,620	292	56	39	5,007
Depreciation for the year	**240**	**91**	**22**	**3**	**356**
Deduction of depreciation	**(5)**	**(46)**	**(9)**	**(10)**	**(70)**
Balance as of December 31, 2023	**4,855**	**337**	**69**	**32**	**5,293**
Amortized balance as of December 31, 2022	1,171	238	64	7	1,480
Amortized balance as of December 31, 2023	**1,188**	**274**	**63**	**10**	**1,535**

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 187 million (December 31, 2022 and 2021, NIS 208 million and NIS 155 million, respectively).

Note 13 - Intangible Assets and Others, net

A. Composition:

	Software and computer licenses	Licenses and frequencies	Customer acquisition cost	Goodwill	Customer relations and other	Total
	NIS millions					
Cost						
Balance as of January 1, 2022	676	343	721	1,563	455	3,758
Additions	8	71	152	-	-	231
Deductions	(9)	(118)	-	-	-	(127)
Balance as of December 31, 2022	675	296	873	1,563	455	3,862
Additions	**1**	**73**	**148**	**-**	**-**	**222**
Deductions	**(1)**	**(48)**	**-**	**-**	**-**	**(49)**
Balance as of December 31, 2023	**675**	**321**	**1,021**	**1,563**	**455**	**4,035**
Accumulated depreciation						
Balance as of January 1, 2022	533	209	550	-	337	1,629
Depreciation for the year	18	60	107	-	21	206
Deduction of depreciation	(9)	(118)	-	-	-	(127)
Balance as of December 31, 2022	542	151	657	-	358	1,708
Depreciation for the year	**18**	**65**	**127**	**-**	**21**	**231**
Deduction of depreciation	**(1)**	**(48)**	**-**	**-**	**-**	**(49)**
Balance as of December 31, 2023	**559**	**168**	**784**	**-**	**379**	**1,890**
Amortized balance as of December 31, 2022	133	145	216	1,563	97	2,154
Amortized balance as of December 31, 2023	**116**	**153**	**237**	**1,563**	**76**	**2,145**

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 26 million (December 31, 2022 and 2021, NIS 42 million and NIS 29 million, respectively).

B. Impairment testing for cash-generating units containing goodwill

The recoverable amount of each of the Company's cash-generating units was evaluated by the company with the assistance of an independent external appraiser using the Value In Use model which was calculated using discounted cash flows method based on a projected five-year cash flows including a representative year. The five-year projected cash flows were estimated in light of the long-term growth rate. The Company used a relevant discount rate, which reflected the specific risks associated with the future cash flows of its cash-generating units. The carrying amount of the goodwill allocated to the cellular-segment and fixed-line segment as of December 31, 2023 amount NIS 831 million and NIS 732 million, respectively.

Actual results may differ from those assumed in the Company's valuation method. It is reasonably possible that the Company's assumptions described above could change in future periods. If any of these were to vary materially from the Company's plans, it may record impairment of goodwill in the future.

Note 13 - Intangible Assets and Others, net (cont'd)

B. Impairment testing for cash-generating units containing goodwill (cont'd)

These assumptions are as follows:

	Cash generating unit Cellular segment	Cash generating unit Fixed-line segment
Pre-tax discount rate	**11.5%**	**11.3%**
Terminal value growth rate	**1.5%**	**1%**
ARPU	**NIS 38.2**	**N/R**

1. The discount rate and the terminal value growth rate are denominated in real terms.
2. The cash generating units have cash flows for 5 years including a representative year, as included in their discounted cash flow model.
3. The long-term growth rate has been determined as 1.5% which represents, among others, the natural population growth rate.
4. The pre-tax discount rate is estimated and calculated using several assumptions, among others, cash generating units' Cost of Equity, risk premium for normative debt leveraging of the Group and estimates of the normative leverage ratio for the industry.
5. ARPU (Average revenue per user) in terminal year (except revenue from hosting services and national roaming services), in NIS.

Sensitivity to changes in assumptions

The estimated recoverable amount of the cash generating units exceeds their carrying amount by approximately NIS 355 million and NIS 576 million in Cellular segment and Fixed-line segment respectively. Management has identified key assumptions for which there reasonably could be a possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount:

	Cash generating unit Cellular segment	Cash generating unit Fixed-line segment
Pre-tax discount rate	**12.61%**	**14.25%**
Terminal value growth rate	**(0.4)%**	**(6.64)%**
ARPU	**NIS 37.07**	**N/R**

Based on the above valuation performed, the Company concluded that the recoverable amount of its cash generating units as of December 31, 2023, 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. Right-of-use Assets and Investment Property

	Cell and switches sites	Buildings	Motor vehicles	Total	Investment property	Total
	assets Right of use					
	NIS millions					
Cost						
as of January 1, 2022 Balance	754	286	69	1,109	26	1,135
changes in ,Additions agreements and revaluation	291	45	16	352	3	355
agreements Deductions for ended	(101)	(10)	(32)	(143)	-	(143)
December 31, Balance as of 2022	**944**	**321**	**53**	**1,318**	**29**	**1,347**
changes in ,Additions agreements and revaluation	**150**	**26**	**25**	**201**	**-**	**201**
agreements Deductions for ended	**(98)**	**(10)**	**(38)**	**(146)**	**-**	**(146)**
December 31, Balance as of 2023	**996**	**337**	**40**	**1,373**	**29**	**1,402**
depreciation and Cumulated devaluation						
January 1, 2022 Balance as of	309	139	38	486	20	506
for year Depreciation	149	38	24	211	-	211
in fair value of real Change estate for investment	-	-	-	-	8	8
agreements Deductions for ended	(52)	(11)	(31)	(94)	-	(94)
in agreements and Changes revaluation	52	-1	-	51	-	51
December 31, Balance as of 2022	**458**	**165**	**31**	**654**	**28**	**682**
for year Depreciation	**151**	**45**	**25**	**221**	**-**	**221**
in fair value of real Change estate for investment	**-**	**-**	**-**	**-**	**1**	**1**
agreements Deductions for ended	**(46)**	**(10)**	**(37)**	**(93)**	**-**	**(93)**
in agreements and Changes revaluation	**(12)**	**(15)**	**-**	**(27)**	**-**	**(27)**
December 31, Balance as of 2023	**551**	**185**	**19**	**755**	**29**	**784**
cost balance as of Amortized December 31, 2022	486	156	22	664	1	665
cost balance as of Amortized December 31, 2023	**445**	**152**	**21**	**618**	**-**	**618**

Note 14 – Leases (cont'd)

B. Leases liabilities

	Cell and switches sites	Buildings	Motor vehicles	Total
	NIS millions			
Balance as of January 1, 2022	459	171	32	662
Additions for new contracts, changes in agreements and revaluation	278	50	16	344
Deductions for ended agreements	(50)	0	(1)	(51)
Financing expenses	22	5	1	28
Payments for lease	(187)	(65)	(25)	(277)
Balance as of December 31, 2022	522	161	23	706
Additions for new contracts, changes in agreements and revaluation	**165**	**42**	**24**	**231**
Deductions for ended agreements	**(52)**	**-**	**(1)**	**(53)**
Financing expenses	**21**	**7**	**1**	**29**
Payments for lease	**(182)**	**(50)**	**(26)**	**(258)**
Balance as of December 31, 2023	**474**	**160**	**21**	**655**
Current maturities of liabilities for leases	135	35	15	185
Liabilities for long-term leases	387	126	8	565
Balance as of December 31, 2022	522	161	23	706
Current maturities of liabilities for leases	127	45	13	185
Liabilities for long-term leases	347	115	8	470
Balance as of December 31, 2023	**474**	**160**	**21**	**655**

Note 15 - Trade Payables and Accrued Expenses

Composition

	As of December 31	
	2022	2023
	NIS millions	
Trade payables	474	**486**
Accrued expenses	317	**325**
	791	**811**

Trade payables as of December 31, 2023 includes reverse factoring of trade payables transactions in amount of approximately NIS 76.3 million (in 2022 - NIS 60.2 million).

Note 16 - Provisions

Composition

	Dismantling and restoring sites	Legal claims	Other contractual liabilities	Total
	NIS millions			
Balance as of January 1, 2022	29	82	27	138
Provisions created in the year	-	10	4	14
Provisions cancelled in the year	(5)	(31)	(9)	(45)
Balance as of December 31, 2022	24	61	22	107
Provisions created in the year	**1**	**55**	**8**	**64**
Provisions cancelled in the year	**(1)**	**(42)**	**(9)**	**(52)**
Balance as of December 31, 2023	**24**	**74**	**21**	**119**
Non-current	**24**	**-**	**-**	**24**
Current	**-**	**74**	**21**	**95**
	24	**74**	**21**	**119**

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 31.

Note 16 – Provisions (cont'd)

Other contractual obligations
Provisions for other contractual obligations and exposures include various obligations that are derived either from a constructive obligation or legislation for which there is a high uncertainty regarding the timing and amount of future expenditure required for settlement.

Note 17 - Other Payables, Including Derivatives

Composition

	As of December 31	
	2022	**2023**
	NIS millions	
Employees and related liabilities	119	**117**
Government institutions	43	**44**
Interest payable	58	**51**
Accrued expenses	10	**26**
Deferred revenue	44	**48**
Derivative financial instruments	-	**7**
	274	**293**

Note 18 – Debentures, Credit and Loans from Financial Institutions

A. This note provides information about the contractual terms of the Group's debentures which are measured at amortized cost. For more information about the Group’s exposure to interest rate, foreign currency and liquidity risks, see Note 22.

	December 31	
	2022	**2023**
	NIS millions	
liabilities Non-current		
Debentures	2,317	**1,739**
	2,317	**1,739**
liabilities Current		
maturities of debentures Current	587	**596**
	587	**596**

Note 18 – Debentures, Credit and Loans from Financial Institutions (cont'd)

B. Debentures

1. The terms and repayment schedule of the Company's debentures are as follows:

				December 31, 2022		December 31, 2023	
				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	304	320	**152**	**167**
Debentures (series I) - unlinked	NIS	4.14%	2018-2025	338	333	**225**	**223**
Debentures (Series J) - linked to the Israeli CPI	NIS	2.45%	2021-2026	72	78	**57**	**64**
Debentures (series K) - unlinked	NIS	3.55%	2021-2026	497	496	**391**	**390**
Debentures (series L) - unlinked	NIS	2.50%	2023-2028	1,330	1,286	**1,130**	**1,100**
Debentures (series M) - unlinked	NIS	4.73%	2025-2030	395.0	391.0	**395**	**391**
Total debentures				2,936	2,904	**2,350**	**2,335**

2. In August 2023 Maalot updated the Company’s rating forecast from 'ilA' with positive outlook to 'ilA+' with stable outlook.

3. In connection with the issue of Series H-M debentures, the Company has undertaken to comply with certain financial and other covenants. Inter alia:

a. An undertaking not to create pledges (negative pledge), subject to certain exceptions. Failure to fulfill such 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 (1) if the Company’s net debt to EBITDA (see note 5 for definition) ratio exceeds a ratio of 3.5:1, the Company shall not distribute more than 85% of the Profits; (2) if the Company’s net debt to EBITDA ratio exceeds 4:1, the Company shall not distribute more than 70% of the Profits; and (3) of the Company’s net debt to EBITDA ratio exceeds 5:1 or 4.5:1 for a duration of four consecutive quarters and/or if the Company equity will be less than NIS 700 million, for two consecutive quarters (series M only), the Company shall not distribute dividends.

c. An 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 at a rate of 0.25% for a two point decrease in the rating of the debentures Series H to K, 0.25% for one point decrease in the rating of the debenture series M and 0.5% for a two point decrease in the rating of debentures Series L, and additional interest of 0.25% for any one point decrease in the rating of the debentures, up to a maximum addition of 1%, compared to their rating before being issued.

e. 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.

As of December 31, 2023, the Group is in compliance with the criteria that were determined.

Note 18 – Debentures, Credit and Loans from Financial Institutions (cont'd)

B. Debentures (cont'd)

4. In addition, the Company's debentures include Events of Default, including:

a. 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.
b. 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.
c. A suspension of trading the debentures on TASE, 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 debenture for a period exceeding 60 days.
f. A motion or court order for stay of proceedings against the Company or submitting a motion for a creditors arrangements.
g. Selling a material part of the Company's assets or merger (except for certain exceptions).
h. Failure to publish financial statements on time.
i. 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, 2023 is 1.48.
j. Failure to comply with the Company's undertaking not to create pledges.
k. 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.
l. There is real concern that the Company shall not fulfill its material undertakings towards its debenture holders.
m. 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.
n. A breach of the Company's undertakings with respect to the issue of additional debentures.

5. In July 2022, the company issued debenture, through the expansion of an existing series of debentures (series L), in the amount of 105 million par value and in exchange for a total amount of approximately NIS 100 million, which reflects an annual effective interest rate of 4.5%.

6. In September 2022, the company issued debenture (series M) in the amount of 395 million par value and in exchange for a total amount of approximately NIS 391 million (gross amount of approximately NIS 395 million).

   Debentures bearing fixed annual interest at the rate of 4.73%, interest shall be paid semi-annually, on 5 January and on 5 July of each of the years 2023 to 2029 (inclusive). Principal to be repaid in six unequal annual installments as described: 5% of the principal shall be paid on 5 January 2025, 10% of the principal shall be paid on 5 January 2026, 15% of the principal shall be paid on 5 January of each of 2027 and 2028 and 27.5% of the principal shall be paid on 5 January of each of 2029 and 2030

Note 18 – Debentures, Credit and Loans from Financial Institutions (cont'd)

C. Credit and loans from Financial Institutions

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

1. Short-term loans to be repaid from time to time and pursuant to the company’s choice until 24 months after the date the credit facility was provided. The loans shall bear variable interest according to the interest rate of the Bank of Israel Interest plus a margin to be determined between the parties. The interest shall be repaid quarterly
2. Long-term loans to be repaid in equal semi-annual installments from the date the loans were provided until 7 years after the date the credit line was provided. The loans shall bear variable interest at the rate of the Bank of Israel Interest or fixed interest at the government bond yield rate as it shall be on the date the loan is provided, as per the Company’s choice, a margin to be determined between the parties. The interest shall be repaid in quarterly installments.

The Company shall pay the lender on each of the interest payment dates, a fee for failing to utilize the credit facility at a rate to be determined between the parties, from the unutilized credit line amount. Provision of the loan is contingent upon the Company complying with its representations and undertakings according to the agreement, on no occurrence of an event of default and on the absence of legal impediment on the lender to extend the loan.

The agreement is not secured by security interests and includes generally accepted terms and undertakings, including a restriction on creating charges subject to certain exceptions, restrictions on a distribution of profits, financial stipulations and events of default that generally also apply with respect to the bonds (series H – M) of the Company, with certain changes, and an option for early redemption, under certain conditions.

In August 2023, the Company entered into a framework agreement with a banking corporation (“the Lender”) regarding the provision of credit, up to a total of NIS 50 million, for a period of 12 months after the date of provision of the credit facility (“the Credit Facility”), which will allow the Company to receive short-term loans, at the Company's discretion. In March 2024, subsequent to the reported period, the Company renewed and increased the facility agreement to provide credit with the Lender, to a total of NIS 100 million (in lieu of the NIS 50 million), for a period of 12 months after the renewal date of the Credit Facility, which will allow the Company to receive short-term loans, at the Company's discretion. The Company shall pay the Lender a credit allocation commission at the end of each calendar month at the rate set between the parties on the unused balance of the credit framework.

In January 2024, subsequent to the reported period, the Company entered into a framework agreement with an additional banking corporation to provide a credit facility (“the Agreement”) up to a total of NIS 100 million, for a period of 12 months after signing the agreement, which will allow the Company to receive short-term loans and bank guarantees valid for up to 3 years from their date of issue, at the Company's discretion.

As of 31 December, 2023, the credit facility has not yet been used.

Note 18 – Debentures, Credit and Loans from Financial Institutions (cont'd)

D. Commercial securities

In January 2024. subsequent to the reported period, the Company issued non-tradable commercial securities (“CS”)in return for NIS 200 million. In accordance with the provisions of the CS, the CS fund shall be redeemed in a single payment after one year from the clearance date and can be renewed for an additional year at the end of each year up to 5 years from the clearance date. The CS bears variable interest at the rate set in the framework agreement for participation in the CS issue. The interest shall be paid at the end of each year.

E. Movement in liabilities deriving from financing activities

	Debentures	Derivatives	Interest payable	Total
	NIS millions			
Balance as of January 1, 2022	(2,756)	(4)	(55)	(2,815)
Changes from financing cash flow				
Payments for derivative contracts, net				
Repayment of loans, debentures and derivativec contracts	396	(11)	-	385
Proceeds from issuance of debentures, net of issuance costs	(491)	-	-	(491)
Interest paid	-	-	82	82
Total cash, net, deriving from financing activities	(95)	(11)	82	(24)
Financing expenses recognized in profit or loss	(53)	19	(85)	(119)
Balance as of December 31, 2022	(2,904)	4	(58)	(2,958)
Changes from financing cash flow				
Repayment of loans, debentures and derivative contracts	**604**	**(14)**	**-**	**590**
Interest paid	**-**	**-**	**89**	**89**
Total cash, net, deriving from financing activities	**604**	**(14)**	**89**	**679**
Financing expenses (income) recognized in profit or loss	**(35)**	**5**	**(82)**	**(112)**
Balance as of December 31, 2023	**(2,335)**	**(5)**	**(51)**	**(2,391)**

Note 19 - 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, 2023 and 2022 is NIS 14 million and NIS 10 million respectively, and they are presented in the consolidated statements of financial position, under Liability for employee rights upon retirement, net.

A. Post-employment benefit plans - defined contribution plan

The Group's liability for severance pay for its employees is calculated pursuant to Israeli Severance Pay Law. The Group's liability is not fully covered by monthly deposits with severance pay funds and insurance policies. 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, 2023 is NIS 16 million (2022 - NIS 16 million). The fair value of the plan assets, the severance pay fund, is NIS 12 million (2022 - NIS 11 million). The expense recognized in the consolidated statement of income for the year ended December 31, 2023 in respect of defined benefit plans, is NIS 1 million (2022 - NIS 1 million).

C. As of December 31, 2023, the Group's liability for adaptation grants to employees is NIS 9 million (31 December, 2022 - NIS 5 million).

Note 20 - Capital and Reserves

A. Share capital

Share capital

	2021	2022	2023
		NIS millions	
Issued and paid at January 1	1,627,758	1,633,213	**1,649,052**
Exercise of share options	5,455	15,839	**4,360**
Issued and paid at December 31	1,633,213	1,649,052	**1,653,412**

The share capital is comprised of ordinary shares of NIS 0.01 par value each.

On December 31, 2023, 2022 and 2021, the registered share capital included a total of 300 million shares.

B. Basic and diluted earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding (164,905,255 ,164,050,212 and 162,775,715 during the years 2023, 2022 and 2021, respectively).

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Note 21 - Share-Based Payments

In March 2015 the Company adopted a capital remuneration plan (options and/or blocked share units) for employees, officers and service providers at the Group. The plan in question was revised in March 2023. In accordance with the plan, the Company Board of Directors may decide on the terms of the grants that include the identity of the recipients, the number of blocked shares or options that will be granted, the vesting period and the exercise price.

The share-based payment conditions include adjustment mechanisms including in the case of dividend distribution. The options will be exercised in a net exercise mechanism, without the transfer of case.

Over the course of 2023 the Company granted some 5.4 million options to Group executives and senior employees (in 2022 – some 8 million options) in three equal batches for each recipient, which vest each year and starting from the end of one year from their granting date.

The exercise price of the options is determined according to the average closing prices of the Company's share on the Tel Aviv Stock exchange over the course of the last 30 days of trade before the allocation decision or the closing price of the share at the end of the date of trade before the allocation decision date, whichever is higher.

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)
	2023		2022		2021	
Balance as at January 1	**11,386**	**17.5**	13,358	14.9	13,389	14.7
Granted during the year	**5,442**	**14.1**	8,002	19.7	2,300	15.7
Forfeited during the year	**(785)**	**16.0**	(4,942)	15.8	(972)	15.0
Exercised during the year	**(434)**	**14.3**	(5,532)	14.6	(859)	13.3
Total options outstanding as at December 31	**15,609**	**16.3**	11,386	17.5	13,858	14.9
Total of exercisable options as at December 31	**4,312**	**16.5**	1,003	14.9	2,923	14.7

The weighted average of the remaining contractual life of options outstanding as at December 31, 2023 is 2 years.

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	2022	2023
Fair value at grant date in NIS	2.7-3.7	3.1-5.9	**3.6-4.5**
Fair value assumptions:			
Share price at grant date NIS	10.8-13.9	15.1-18.3	**13.3-14.6**
Exercise price NIS	11.4-19.7	18.3-21.9	**13.8-14.6**
Expected volatility (weighted average)	49.5-51%	45.6%-48.8%	**42.5%-42.0%**
Option life (expected weighted average life)	2.3	3.1	**2.3**
Risk free interest rate	0.05%-0.25%	0.1%-1.9%	**3.9%-4.2%**

Note 21 - Share-Based Payments (cont'd)

The changes in the balances of the RSU were as follows:

	Number of RSU (thousands)		
	2021	**2022**	**2023**
Balance as at January 1	1,104	587	**1,112**
Granted during the year	-	851	**-**
Forfeited during the year	(102)	(108)	**(50)**
Exercised during the year	(415)	(218)	**(397)**
Total RSU outstanding as at December 31	587	1,112	**665**

	2021	**2022**	**2023**
		NIS	
Fair value of restricted stock units:			
Fair value of restricted stock units at grant date	-	16.5	**-**

	2021	**2022**	**2023**
		NIS Millions	
Salary expenses arising from share-based payments (NIS millions)	15	24	**24**

Note 22 - Financial Instruments

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,	
	2022	2023
	NIS millions	
Trade receivables including long-term amounts	1,053	**1,084**
Loans and other receivables, including long-term amounts	40	**44**
Deposits	143	**24**
Cash and cash equivalents in banks	773	**473**
Derivative financial instruments	5	**3**
	2,014	**1,628**

Impairment losses

The aging of financial assets at the reporting date was as follows:

	Gross	Devaluation	Gross	Devaluation
	2022		2023	
	NIS millions			
Not past due	2,008	49	**1,609**	**28**
Past due less than one year	63	30	**58**	**28**
Past due more than on year	43	21	**35**	**18**
	2,114	100	**1,702**	**74**

Note 22 - Financial Instruments (cont'd)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2022	2023
	NIS millions	
Balance as of January 1	112	**100**
Write-off of lost debts	(14)	**(24)**
Doubtful debt loss (profit)	2	**(2)**
Balance as of December 31	100	**74**

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, 2023						
	Carrying amount	Contractual cash flow	First year	Second year	Third year	Four to five years	More than five years
	NIS millions						
Debentures*	**(2,386)**	**(2,605)**	**(681)**	**(555)**	**(445)**	**(697)**	**(227)**
Trade and other payables	**(1,003)**	**(1,003)**	**(1,003)**	**-**	**-**	**-**	**-**
Forward contracts on foreign currency	**(3)**	**(3)**	**(3)**	**-**	**-**	**-**	**-**
Other long-term liabilities	**(14)**	**(14)**	**(11)**	**(3)**	**-**	**-**	**-**
Lease liabilities	**(655)**	**(736)**	**(202)**	**(153)**	**(112)**	**(146)**	**(122)**
	(4,061)	**(4,361)**	**(1,900)**	**(711)**	**(557)**	**(843)**	**(349)**

	As of December 31, 2022						
	Carrying amount	Contractual cash flow	First year	Second year	Third year	Four to five years	More than five years
	NIS millions						
Debentures*	(2,962)	(3,284)	(688)	(674)	(554)	(797)	(571)
Trade and other payables	(967)	(967)	(967)	-	-	-	-
Other long-term liabilities	(24)	(24)	(21)	(3)	-	-	-
Lease liabilities	(706)	(728)	(196)	(141)	(101)	(144)	(146)
	(4,659)	(5,003)	(1,872)	(818)	(655)	(941)	(717)

* Including accrued interest

Note 22 - 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:

	2022 ,December 31			2023 ,December 31		
	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	25	-	748	**26**	**-**	**447**
Current investments, including derivatives	-	-	143	**-**	**-**	**24**
Trade receivables	41	-	828	**52**	**-**	**862**
Other receivables	4	10	7	**1**	**9**	**8**
Long-term assets						
Long-term receivables	-	-	208	**-**	**-**	**200**
Current liabilities						
Current maturities of debentures and loans from financial institutions	-	(177)	(410)	**-**	**(184)**	**(412)**
Trade payables and accrued expenses	(227)	-	(564)	**(144)**	**-**	**(667)**
Other current liabilities, including derivatives	-	(30)	(287)	**(3)**	**(7)**	**(331)**
Current maturities of lease liabilities	(8)	(177)	(1)	**(8)**	**(177)**	**(1)**
Long-term liabilities						
Debentures	-	(221)	(2,096)	**-**	**(47)**	**(1,692)**
Other non-current liabilities	-	(8)	(55)	**-**	**(3)**	**(49)**
Long-term lease liabilities	(22)	(497)	(2)	**(19)**	**(450)**	**(1)**
	(187)	(1,101)	(1,481)	**(95)**	**(859)**	**(1,612)**

Note 22 - Financial Instruments (cont'd)

Currency risk and CPI (cont'd)

	December 31, 2023			
	Currency/linkage receivable	Currency/linkage payable	Face value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward contracts on exchange rates	USD	NIS	**(70)**	**(2)**
Forward contracts on CPI	CPI	NIS	**(150)**	**-**
Foreign currency put options	NIS	USD	**(118)**	**(3)**

	December 31, 2022			
	Currency/linkage receivable	Currency/linkage payable	Face value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward contracts on exchange rates	USD	NIS	(85)	3
Forward contracts on CPI	CPI	NIS	(315)	-
Foreign currency put options	NIS	USD	(77)	-

Sensitivity analysis

A change of the CPI as at December 31, 2023 and 2022 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 2022.

		Equity	Net profit
	Change	NIS millions	
December 31, 2023			
Increase in the CPI of	2%	**(15)**	**(15)**
Increase in the CPI of	1%	**(8)**	**(8)**
Decrease in the CPI of	(1)%	**8**	**8**
Decrease in the CPI of	(2)%	**15**	**15**
December 31, 2022			
Increase in the CPI of	2%	(6)	(6)
Increase in the CPI of	1%	(3)	(3)
Decrease in the CPI of	(1)%	3	3
Decrease in the CPI of	(2)%	6	6

Sensitivity of change in foreign exchange rate is immaterial as at December 31, 2023 and 2022.

Note 22 - Financial Instruments (cont'd)

Interest rate risk

1. Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, not including derivatives, was:

	Carrying amount	
	2022	2023
	NIS millions	
Fixed rate instruments		
Financial liabilities	(2,904)	**(2,335)**
Variable rate instruments		
Financial assets	143	**391**

2. 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, 2023		December 31, 2022	
	Carrying amount	Fair value*	Carrying amount	Fair value*
	NIS millions		NIS millions	
Debentures, including current maturities and interest payable	(2,962)	(2,916)	**(2,386)**	**(2,107)**

* The fair value as of December 31, 2023 includes principal and interest in a total sum of approximately NIS 51 million, paid in January 2024, after the end of the reporting period.
The fair value as of December 31, 2022 includes principal and interest in a total sum of approximately NIS 58 million, paid in January 2023.

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 22 - 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, 2023		
	Level 1	Level 2	Total
		NIS millions	
Financial assets by fair value through profit or loss			
Current investments in debt securities	**24**	**-**	**24**
Derivatives	**-**	**2**	**2**
Total assets	**24**	**2**	**26**
Financial liabilities by fair value through profit or			
Derivatives	**-**	**(7)**	**(3)**
Total liabilities	**-**	**(7)**	**(3)**

There have been no transfers during the year between Levels 1 and 2.

	December 31, 2022		
	Level 1	Level 2	Total
		NIS millions	
Financial assets by fair value through profit or loss			
Current investments in debt securities and shares	143	-	143
Derivatives	-	6	6
Total assets	**143**	**6**	**149**

There have been no transfers during the year between Levels 1 and 2.

(3) Details regarding fair value measurement at Level 2

Financial instrument	Valuation method for determining fair value
Forward contracts	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Foreign currency options	Fair value is measured based on the Black-Scholes formula.

Note 22 - Financial Instruments (cont'd)

Fair Value (cont'd)

(4) Offset of financial assets and financial liabilities

The following table sets out the carrying amounts of recognized financial instruments that were offset in the consolidated statements of financial position:

	Note	December 31, 2023		
		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	**59**	**(52)**	**7**
Financial liabilities				
Trade payables and accrued expenses	15	**(63)**	**52**	**(11)**

	Note	December 31, 2022		
		Gross amount of financial assets (liabilities) recognized	Gross amount of financial assets (liabilities) recognized and offset in the consolidated statements of financial position	Net amount of financial assets (liabilities) presented in the consolidated statements of financial position
			NIS millions	
Financial assets				
Trade receivables	10	127	(97)	30
Financial liabilities				
Trade payables and accrued expenses	15	(104)	97	(7)

Note 23 - Revenues

By type of revenue:

Composition

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Revenues from services			
Cellular services	1,317	1,414	**1,466**
Land-line communications services	1,086	1,150	**1,207**
Other services*	91	96	**139**
Total revenues from services	2,494	2,660	**2,812**
Revenues from sale of end equipment	1,161	1,189	**1,181**
Total revenues from services sale of end equipment	3,655	3,849	**3,993**
Interconnect services	445	451	**405**
Total revenues	4,100	4,300	**4,398**

* For 2023 and 2022, includes revenue from electricity services in the amount of NIS 33 million and NIS 3 million, respectively.

Note 24 - Cost of Revenues

Composition

	For year ended December 31		
	2021	2022	2023
	NIS millions		
According to its components			
Cost of equipment sold	977	989	**990**
Electricity, maintenance and technological network expenses	85	82	**98**
Salaries and other related expenses	162	162	**164**
Fees to communication operators	792	848	**819**
Cost of content	198	189	**189**
Depreciation and amortization	565	559	**576**
Frequencies fees	90	94	**94**
Other	94	111	**129**
Total cost of revenues from services	1,986	2,045	**2,069**
	2,963	3,034	**3,059**

Note 25 - Selling and Marketing Expenses

Composition

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Salaries and related expenses	288	293	**302**
Distributors' Commissions and customer service	75	89	**93**
Advertising and public relations	57	56	**61**
Depreciation and amortization	197	158	**180**
Collection fees	22	20	**21**
Other	27	34	**38**
	666	650	**695**

Note 26 - General and Administrative Expenses

Composition

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Salaries and related expenses	85	98	**101**
Depreciation and amortization	134	113	**122**
Maintenance and insurance	23	26	**25**
Data processing and professional services	25	26	**25**
Welfare expenses, car allowance and transportation workers	25	27	**29**
Other	9	10	**7**
	301	300	**309**

Note 27 - Other Income (Expenses), net

Composition

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Interest income from installment sale transactions	12	11	**13**
Profit of operating Contractor	39	15	**16**
Legal claims and other expenses	(7)	18	**(33)**
Other revenues (expenses), net	44	44	**(4)**

Note 28 - Financing Income and Expenses

Composition

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Net change in the fair value of financial assets measured by fair value through profit or loss	-	18	**4**
Interest revenues from loans	-	1	**2**
Interest income from deposits	3	8	**19**
Financing revenues	3	27	**25**
Interest expenses and index linkage differentials for long-term liabilities	(109)	(111)	**(95)**
Expenses from discount amortization	(31)	(28)	**(23)**
Financing expenses for liabilities for leases	(22)	(26)	**(29)**
Other	(6)	(17)	**(18)**
Financing expenses	(168)	(182)	**(165)**
Financing expenses, net	(165)	(155)	**(140)**

Note 29 - Income Tax

A. Details regarding the tax environment of the Group

Corporate tax rate

The tax rate relevant to the Group in the years 2021-2023 is 23%.

The deferred tax balances as at December 31, 2022 and at December 31, 2023 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

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Current tax expenses (income)			
Current year	6	9	**25**
Adjustments for past years, net	(1)	7	**1**
	5	16	**26**
Deferred tax expenses			
Creation and reversal of temporary differences	7	29	**30**
Tax on income	12	45	**56**

Note 29 - Income Tax (cont'd)

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

	For year ended December 31		
	2021	2022	2023
	NIS millions		
Profit before taxes on income	44	203	**193**
Primary tax rate of the group	23%	23%	**23%**
Tax calculated according to the Group's primary tax rate	10	47	**44**
Addition (saving) tax in respect of:			
Non-deductible expenses	6	8	**8**
Other differences	(4)	(10)	**4**
Tax on income	12	45	**56**

D. 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, 2023	**22**	**(163)**	**45**	**36**	**(60)**
Changes recognized in profit or loss	**(7)**	**(28)**	**(6)**	**(6)**	**(47)**
Balance of deferred tax asset (liability) as at December 31, 2023	**15**	**(191)**	**39**	**30**	**(107)**
Deferred tax asset					**91**
Offset of balances					**(86)**
Deferred tax asset in the consolidated statements of financial position as at December 31, 2023					**5**
Deferred tax liability					**(198)**
Offset of balances					**86**
Deferred tax liability in the consolidated statements of financial position as at December 31, 2023					**(112)**

Note 29 - Income Tax (cont'd)

D. Recognized deferred tax assets and liabilities (cont'd)

	Provision to doubtful debts	Fixed assets and intangible assets	Deduction and losses for carrying for tax	Other	Total
	NIS millions				
Balance of deferred tax asset (liability) as at January 1, 2022	25	(180)	76	39	(40)
Changes recognized in profit or loss	(4)	17	(31)	(4)	(22)
Changes recognized in other comprehensive income	-	-	-	1	1
Balance of deferred tax asset (liability) as at December 31, 2022	21	(163)	45	36	(61)
Deferred tax asset					112
Offset of balances					(107)
Deferred tax asset in the consolidated statements of financial position as at December 31, 2022					5
Deferred tax liability					(173)
Offset of balances					107
Deferred tax liability in the consolidated statements of financial position as at December 31, 2022					(66)

E. Tax assessments

1. The Company has received final tax assessments up to and including the year ended December 31, 2017 (2017 fiscal year).

2. Golan Telecom Ltd. has received final tax assessments up to and including the year ended December 31, 2019 (2019 fiscal year).

3. Dynamica network stores Ltd. has received final tax assessments up to and including the year ended December 31, 2019 (2019 fiscal year).

4. The Company has a carried-over loss of 170 million NIS, the Company expects to utilize this loss in coming years.

Note 30 - 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, 2023, 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 336 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, 2023, is NIS 9 million.

2. Rights of use in IBC's optic fiber infrastructure, for addition information NIS see Section F of this note.

D. Network sharing agreement with Wecom Mobile Ltd. ("Wecom") (previously- Marathon (018) Xfone Ltd.):

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

The Sharing Agreement with Wecom sets the terms under which the shared 4G and 5G networks will operate, the terms under which hosting services for the 2G and 3G networks will be provided, and also determines, inter alia, the following terms:

1. Arrangements for using the parties' relevant frequencies; management and operation using a joint corporation (the "Joint Corporation"); arrangements of the parties' holding and use of active and pasive components of the shared network; arrangements for future investments and the payment method in the shared network's active components; arrangements for an indefeasible right of use (IRU) of these components, of each sharing party towards the other sharing parties; the grant of an indefeasible right of use (IRU) from the Group to Wecom and to the Joint Corporation with respect to the shared network's passive components; arrangements for services the Group shall provide the Joint Corporation as a subcontractor; arrangements for the parties'

Note 30 - Commitments (Cont'd)

D. Network sharing agreement with Wecom (previously- Marathon (018) Xfone) (Cont'd)

separation; and arrangements for adding an additional joint party. The Sharing Agreement includes Wecom's undertaking to obtain from the Ministry of Communications an amended cellular license and allocation of frequencies under the 2020 Tender, and to pay the license and frequency fees thereunder to the Ministry of Communications.

2. **The agreement period** – The agreement is made for 10 years from the Completion Date. For circumstances allowing Wecom to shorten the period of the agreement to seven years.
3. **The consideration –** The annual consideration to be received by the Group during the agreement period within the framework of the Wecom Agreement includes: (1) payment for the IRU on the active and passive components of the shared network; (2) payment for a certain share of Wecom in the cost of the active components of the shared network from the Completion Date; and (3) payment for participation in the regular operating costs of the shared network and the Group's 2G and 3G networks, according to the number of Wecom subscribers . The Company estimates that the total consideration from the Sharing Agreement, including participation in purchasing equipment for the shared network, shall amount to NIS 300-400 million over the period (10 years). In the Company's estimates, discounts as set forth in subsection (d) below, if granted, do not materially change the Company's estimates with respect to the total consideration from the Sharing Agreement, while shortening the agreement, if shortened, would proportionally reduce the total consideration.
4. **Call option, loan option and put option** – Clear Communications Holdings Limited Partnership – the controlling shareholder in Wecom after completing Wecom's creditors' arrangement ("Clear") was granted the possibility to obligate the Company to purchase all (100%) of Wecom's share capital within a period of three to five and a-half years of completing the transaction, in consideration for NIS 130 million (that could increase in certain instances) ("Call Option"). Should such Call Option, which is contingent upon obtaining regulatory approvals from the Ministry of Communications and the Director General of Competition, not be exercisable, clear shall have the option to obligate the Company to provide an interest bearing loan to Wecom in the same amount against collateral as agreed between the parties, and subject to applicable law ("Loan Option"). The Company is unable to estimate whether the Call Option shall be exercised, and if so, whether approvals necessary for exercising it shall be obtained and on what terms. The company cannot estimate whether the Call Option will be exercised, and if exercised, whether the required approvals will be obtained for purpose of its exercise and under what terms.

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

Note 30 - Commitments (Cont'd)

E. Collective employment agreements:

In March 2024, subsequent to the reported period, the Company engaged in a collective agreement with the Workers' Committee and the New General Workers' Histadrut ("the Collective Agreement"), for a period of three years (2024 to 2026). The agreement includes policies and employment benefits similar to those practiced at the Company with a number of changes, including a salary bonus of 3% in 2024 and 3.5% in 2025-2026, and the agreement includes a bonus that will be given to Company employees with a certain level of seniority. In addition, it was decided to pay a one-time bonus to eligible employees (as defined in the Collective Agreement) that will be paid subject to the completion of the transaction to sell all of the shares of the Discount Investment Company Ltd. (the Company's (indirect) controlling shareholder), to Fortissimo Capital Fund VI, L.P. For further details on the sales agreement see Note 1a.

The estimated cost of the arrangements included in the collective agreement is estimated at NIS 165 million, as follows:

1. Bonuses to the sum of NIS 40 million, of which NIS 20 million is for the special bonus (if the sales agreement in question is completed).
2. Additional components of the agreement to the sum of NIS 125 million with an annual deployment as follows: approx. NIS 26 million for 2024, approx. NIS 40 million for 2025 and approx. NIS 59 million for 2026).

F. Investment agreements in IBC:

In February 2021, an investment agreement with Hot Cable Communication Systems Ltd. Was completed (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 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.

Note 30 - Commitments (Cont'd)

F. Investment agreements in IBC (Cont'd):

In March 2023, the group engaged in another Agreement with IBC (the "Agreement"), in which it was determined, among other things, that as of July 1, 2023, the Company's Group undertaking to purchase an indefeasible right of use (IRU) from IBC of IBC's infrastructure lines shall be not less than 12.5% of the customer's households in connected buildings to the IBC's network (instead of 10%, as of the date of this Agreement) and will reach 15% as of July 1, 2024, all regarding to the balance of the first service period.

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

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

G. Electricity supply agreement

1. Contractual engagement in a founders' agreement

a. In August 31, 2023, the Company contractually engaged in a founders agreement with Meshek Energy (the “Founders Agreement”), for the establishment of a registered limited partnership (“Cellcom Energy” or the “Partnership”), the purpose of which is to operate in the area of marketing, sales and supply of electricity to private and business customers (with the exception of the kibbutzim and cooperative moshavim (including central organizations such as the shopping organization of kibbutzim and cooperative moshavim), enterprises operating on kibbutz or moshavim land, and corporations in which a kibbutz or moshavim holds at least 26% of their issued capital, as well as other rural settlements to be determined by agreement between the parties. and certain activities as agreed upon by the parties, for which each of the parties will be entitled to act independently). To such end, Cellcom Energy shall take necessary action to obtain a license for supplying electricity without means of production, from the Electricity Authority (the “License”). Cellcom Energy as well as the general partner company of Cellcom Energy are held in equal parts (50% - 50%) by the parties.

b. According to the business plan approved by the parties as part of the founders' agreement (the “Business Plan”), each party shall provide the partnership, based on its relative share of the partnership’s capital, the finance amounts specified in the Business Plan (including budget updates, if any, approved in the course of the Business Plan period, which is 5 years starting January 1, 2024). This financing may be in the form of capital injection, provision of a shareholder’s loan, credit raising or provision of guarantees and security interests, all per the business plan and as determined by the general partner. In addition, provisions were set forth regarding additional financing, insofar as required by the partnership as determined by the general partner, as well as a dilution mechanism in cases where a certain party did not provide its share of the financing amounts.

c. The parties warranted that as long as they hold at least 25% of the Partnership’s capital, at least 25% of the general partner’s capital, or if they are entitled to appoint a director of the general partner, they shall act in the area of cooperation only through Cellcom Energy, with certain exceptions as they agreed.

Note 30 - Commitments (Cont’d)

G. Electricity supply agreement (cont'd)

d. For the purpose of promoting Cellcom Energy’s activity, it was agreed that the Company would provide services to the Partnership, in the area of sales and customer success, as part of a services agreement to be executed between the parties; whereas Meshek Energy shall sell to Cellcom Energy from four plants of Meshek Energy (and affiliated entities thereof), which are solar installations with integrated storage, under terms the main points of which shall be set forth in section 2 below (the “Electricity Purchase Agreements”).

In addition, Cellcom Energy shall have the right of first offer for filing proposals for purchasing electricity from solar facilities with integrated storage, to be built by Meshek Energy and entities related to it (if any are built) on dates agreed in the founders' agreement, according to the mechanism set forth therein. On the other hand, Meshek Energy (and entities related to it) shall have the right of first offer for submitting proposals for the supply of electricity in any proceeding that Cellcom Energy conducts for the purchase of electricity, pursuant to the mechanism set forth in the founders' agreement. The foregoing rights of first offer shall remain in effect as long as the Company or Meshek Energy, as relevant, hold at least 30% of Cellcom Energy.

e. Starting from the establishment date of Cellcom Energy and until December 31, 2028, the Company (as long as it holds at least 50% of the rights in Cellcom Energy and the general partner’s shares) shall have the right to appoint the chair of the board of directors and the chair of the general meeting of the general partner in Cellcom Energy, and such chairperson shall have a decisive vote when voting on certain issues as determined by the parties, according and subject to the mechanism agreed upon by the parties (the “Decisive Vote Mechanism”). The effect of the Decisive Vote Mechanism shall be automatically extended for additional periods of 5 years each, if in such period the Decisive Vote Mechanism is not used more than twice, subject to approval of the Business Plan for each additional period by the parties.

f. In the founders' agreement, restrictions were established on the transfer of rights in Cellcom Energy and in the general partner company, including the restriction that any transfer must be of the full rights of any party, and in addition a right of first refusal was established that is exercisable after a certain period from the date the partnership receives the license, as defined in the agreement. In addition, starting 5 years after the date of force of the founders' agreement, each party shall have the right to purchase the other party’s share in the partnership and in the general partner, pursuant to a BMBY mechanism that was set forth. Insofar as the Company would be the one to exercise the BMBY mechanism and purchase Meshek Energy’s share in the partnership and in the general partner, then Meshek Energy shall be entitled to cancel the electricity purchase agreements per the mechanism and periods set forth in the founders' agreement.

Note 30 - Commitments (Cont'd)

G. Electricity supply agreement (cont'd)

2. Contractual engagement in the Electricity Purchase Agreements

a. Concurrently with executing the Founders' Agreement, the parties and an entity affiliated with Meshek Energy (the "Producer") contractually engaged in 4 Electricity Purchase Agreements, for a 20-year period from the date each production plant is associated with Cellcom Energy, pursuant to each such agreement (among others subject to paragraph 1.f above), from 4 production plants to be constructed by Meshek Energy and its affiliate entities in 2024, equipped with 45 megawatt DC solar power and storage capacity of 100 MWh, with respect to all the plants.

b. Total expected payments from Cellcom Energy in connection with the purchase of electricity from the four production plants, for the cumulative period of the agreements, is about NIS 500 million, and it shall be partially linked to the Consumer Price Index with an agreed cap, and partially linked to the production rate (the weighted production component rate that is published by the Electricity Authority - the "Weighted Rate") (the "Linkage Mechanism"), and in addition minimum and maximum tariffs were set that Cellcom Energy shall be required to pay for transmitting electricity from every such production plant. Said consideration embodies an agreed discount from the Weighted Rate.

c. At the time of the parties' execution of the electricity purchase agreements, the Company and Meshek Energy provided parent company guarantees (limited in amount) based on their shares to ensure Cellcom Energy's payments to the producer in accordance with the agreements. The amount of such guarantees shall be updated based on the linkage mechanism starting from the date of signing the electricity purchase agreements, cumulatively for the entire period of the agreements, as aforesaid.

d. If the commercial operation of each production plant (after obtaining approval for commercial operation from the Israel Electric Corporation), pursuant to the Electricity Purchase Agreements, has not commenced until various dates in 2024 as determined, Cellcom Energy is to be paid liquidated damages pursuant to an agreed mechanism, and if the commercial operation has not commenced until 12 months after such date, the producer shall be permitted to terminate the Electricity Purchase Agreements, and they shall terminate after said 12 months (in which case Meshek Energy undertook to make available for Cellcom Energy the next plant available for construction with a similar output and under terms identical to the foregoing Electricity Purchase Agreements). In addition, should the producer fail to meet Cellcom Energy's electricity requirements, with respect to each production plant separately, liquidated damages are to be paid to Cellcom Energy up to the compensation cap in accordance with the agreed mechanism, and should the producer reach the compensation cap, Cellcom Energy is permitted to terminate the agreement.

Note 30 - Commitments (Cont'd)

G. Electricity supply agreement (cont'd)

3. Entry into force of the Founders' Agreement, including the contractual engagement in the Electricity Purchase Agreements, was contingent on obtaining the approval of the Israel Competition Authority (without conditions that are not acceptable to the parties), within 90 days from its date of execution. On November 2023 the Antitrust Commissioner made a decision in which an exemption was given from the approval of a binding arrangement between the parties, for a period of 5 years (at the conclusion of which the Antitrust Commissioner will be able to reassess the competitive impact of the arrangement, with the development of the field of virtual supply to households, alongside the field of energy storage). Note that in the event that the exemption in question is not renewed, the parties have agreed upon a mechanism to liquidate the partnership between them. As such, the engagement in question entered into effect and the parties are working to realize it.

4. In light of the rights granted to the Company in the founders' agreement (including the Decisive Vote Mechanism, as provided in paragraph 1.e above), the Company is expected to consolidate the results of Cellcom Energy in its financial statements, as long as the Decisive Vote Mechanism is in effect.

Note 31 - 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 as of December 31, 2023 amounted NIS 74 million.

Most of the lawsuits and the motions for approval of class certification that are filed against the Group are claims by 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 and breach of contracts (hereinafter: "Other Claims").

On May 30, 2023 a judgment was issued by the Israeli Supreme Court (the "judgment") accepting an appeal filed against a decision on a request for approval of a class action against the Company (which was partially rejected by the Jerusalem District Court). The judgment determined, among other things, that the Company illegally increased the price of a basic plan it provided to its customers, and that the discount period was limited in time, without giving sufficient notices about the end of the discount period. Following the judgment, the class action is expected to be settled in the Jerusalem District Court. In June 2023, the Company submitted to the Supreme Court a request for further hearing in connection with the judgment which was rejected in August 2023.

Further to the Judgment, in June 2023, the Company received two motions to approve class action, alleging that the Company charged its customers in transactions for a fixed period, without giving them sufficient notice of the price increase. These requests are similar to a previous request that was filed against the Company, which is still pending.

This Judgment affects the prospects assessments (based among others on estimates of the Company's legal advisors) in additional lawsuits that are pending against the Company. Therefor the Company included a provision for these lawsuits in the financial statements for the second quarter of 2023 in the amount of 42 NIS millions listed under other expenses section.

Following the reporting period, a claim and a motion for approval as class action were filed against the Group, the amount of the claim was not specified, at this preliminary stage their prospects of success cannot be estimated. Also, 5 claims ended in an amount estimated by the plaintiffs at approximately NIS 411 million.

Described hereunder are the outstanding lawsuits against the Group as of 31 December, 2023, classified into groups with similar characteristics. The amounts presented below are calculated based on the claims amounts as of the date of their submission to the Group:

Note 31 - Contingent Liabilities (cont'd)

A. Legal actions (cont'd)

Group of claims	Claim amount for claims whose chances can be estimated	Claim amount for claims whose chances can't be estimated yet	Total
Consumer Claims	878 (1) (2)	-	878
Other Claims	5	1	6
Total	**883**	**1**	**884**

(1) Including claims against the Group and other defendants together in a total amount of approximately NIS 300 million, without the Group noting the separate claim amount, and two additional claims against the Group and other defendants, while the amount being claimed from the Group was estimated by the plaintiffs at NIS 3 million.
(2) There are additional claims against the Group for which no claim amount was noted, for which Group may have additional exposure.

Described hereunder the number and amount of the claims as at December 31, 2023, broken down by amount of the claim:

Claim amount	Number of claims	Total claims amount (NIS millions)
Up to NIS 100 million *	19	176
NIS 100-500 million	1	405
Unquantified claims	25	-
Against the Group and other defendants together without specifying the amount claimed from the Group	1	300
Against the Group and other defendants together, in which the amount claimed from the Group has been quantified	1	3
Unquantified claims against the Group and other defendants	6	-
Total	**53**	**884**

* Including 15 claims filed against the Group by employees, subcontractors, suppliers, authorities and others as of December 31, 2023, with a total amount of approximately NIS 5 million.

B. Liens and guarantees

1. **Liens:** As part of issuance of the Series H to M debentures and the loan agreements which the Company entered into, the Company committed not to create liens on its assets, subject to certain exceptions.

2. **Guarantees:** The Group has given bank guarantees and others as of December 31, 2023 as follows:

A. To government institutions - NIS 56 million.
B. To suppliers and others - NIS 109 million.

Note 32 - Regulation and Legislation

A. In November 2021, legislative changes were enacted as part of the Economic Policy Law, 2021 (the Arrangements Law), regarding the promotion of retiring advanced communication infrastructures in Israel and reducing exposure to non-ionizing radiation, and as part thereof amended the existing regulation regarding exemption from building permits for the establishment, replacement or introduction of certain cellular sites and the inclusion of cellular sites in the definition of national infrastructure purposed with relaxing protocols for retiring communication infrastructures.

B. The company recruits internet customers on (IBC and Bezeq) fiber infrastructure and on Bezeq's copper infrastructure. In December 2022, the Ministry of Communications published forecast indicators for the demand for data capacity on the Bezeq network, which are used to determine the wholesale market rates for the copper infrastructure. These indicators led to an increase in wholesale market rates in the copper infrastructure for 2023. In addition, the ministry published an update regarding the wholesale market rates for fiber infrastructure in the Bezeq network, which have increased relative to 2022. These rates were reduced by Bezeq as part of the understandings it reached with the Ministry of Communications in connection with the approval of its IRU agreement with Partner.

C. In March 2020 the Ministry of Communications informed the Group and an additional cellular operator that they are required to switch from the 850 MHZ frequency band that was allocated to them, to the 800 MHZ frequency band, so that they shall resemble the European standards and the region where the State of Israel is located. As of the date of the report, the group's bandwidth in the 850 MHZ frequency band was reduced from 10 MHZ to 5 MHZ, and it was moved to a substitute band. At a later date to be determined, the frequency band in the 850 MHZ area shall be terminated, and instead the group shall be offered a frequency band that is completely in the 800 MHZ frequency band. The Ministry of Communications shall consider allocating part of the revenue from frequency tenders in the 800 or 900 MHZ frequency bands, if any such tenders shall be conducted, to accelerating the process of switching frequencies, as aforesaid. The completing of the foregoing switching of frequencies shall require material investments and replacing radio equipment in most of the group's cellular sites.

D. In August 2020, the company and Wecom, its partner in the shared network, gained additional frequencies for 4th and 5th generation services in exchange for the payment of license fees totaling NIS 115 million. In 2022, the company paid approximately NIS 70 million for the frequencies; and per company compliance with the eligibility conditions for the grant, the company received a refund of approximately NIS 26 million.

E. In December 2020, the Communications Law was amended updating the obligations of optical fiber deployment and the service delivery obligations of operators with a general license - owners of their own infrastructure (who were previously required to perform a universal deployment of each network they deploy), and establishing incentives to encourage the deployment of infrastructure in areas where no deployment obligation exists, based on economic viability tests. The group is mainly impacted by an additional 0.5% tax imposed on its annual revenue (as defined) starting in 2021 until the time the deployment obligation was set forth for each of the incentive zones.

Note 32 - 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.

G. In June 2022, the Minister of Communications decided to amend the Communication (Bezek and Broadcasting) Regulations (Payments for Interconnection), 5742-1982. As part of the amendment, an outline has been set forth to gradually reduce interconnection fee rates for calls that end in networks of a cellular operator and a national domestic operator, such that said rate reduction will begin in June 2023 (the "Effective Date" and the "Reduction Framework" as applicable). According to the Reduction Framework, the maximum interconnection rates for calls will be reduced, in general, in two phases over 36 months from the Effective Date, at which point each operator shall bear its own costs, and, as a general rule, there will be no interconnection payment transfers with respect to call minutes. With regard to international calls, the oversight was removed from the completion segment of an incoming international call from abroad, and the foregoing framework for gradual reduction shall apply to outgoing calls abroad. In the company's estimation, implementing the change outline as aforesaid is not expected to have a material impact on the results of the group's activities.

H. On August 2022, the approval of the Ministry of Communications was received for the framework agreement entered into by the company in November 2021, whereby the activity of sharing the passive infrastructure in cellular sites shall be expanded with Pelephone and PHI Networks (2015) Limited Partnership (the latter was later replaced by Partner and Hot Mobile) (the "Sharing Agreement"). In the company's estimation, expanding cooperation may facilitate and optimize the activity of setting up mobile sites.

I. In July 2023, the Ministry of Communications passed a resolution and the Company's license was amended so as to allow third parties that are not cellular companies ("Entrepreneurs") to establish a radio center infrastructure (cellular sites) and rent them to the cellular companies, so long as such sites are activated and maintained solely by cellular companies, with such use being incremental to the coverage obligations set in the companies' licenses. The Ministry's ruling also stated that in order to establish and rent such a radio infrastructure, the entrepreneurs will be required to receive an appropriate license from the Ministry of Communications and meet the terms and restrictions.

Note 33 - Related Parties

A. Balance sheet

	December 31 2022	December 31 2023
	NIS millions	
Current assets	5	**1**
Current liabilities	-	**2**

The balance of the debentures held by related and interested parties, which includes debenture held for public benefit through, among other things, provident funds, mutual funds and pension funds, as of December 31 2023 and 2022, is NIS 942 and NIS 1,253 million NV, respectively.

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms:

	Year ended December 31		
	2021	2022	2023
	NIS millions		
Income:			
Revenues	5	6	**6**
Expenses:			
Cost of revenues and other	3	6	**17**

In 2023, the Company recorded profits of NIS 14 million that derived from recording revenues from deploying fiber-optics for IBC after offsetting expenses (NIS 20 million in 2022). Such profits were recorded to the other revenues item in profit and loss. For additional information, see Note 8, regarding Equity Accounted Investees and Joint Operations and Note 30 (F), regarding commitments.

In March 2023, the Company Audit Committee approved an engagement agreement to purchase and supply electricity over the normal course of business and under market conditions, with a company from the Elco Ltd. Group, which is considered the Company's controlling shareholder or in which the Company's controlling shareholders have a personal interest. The engagement in question, which came into effect in July 2023, is for a period of 4 years (and includes an automatic renewal for additional periods of 12 months each, and subject to the right to end the agreement in cases detailed in it) and is expected to be to the scope of NIS 40 million per year.

In 2003, the Company engaged in a lease agreement with an interested party, Migdal Insurance and Financial Holdings Ltd. In November 2021 the Group extended the lease agreement for eight more years (from January 1, 2023 to December 31, 2030) only with respect to an area of 18,000 sqm serving the Company's headquarters and also with respect to underground parking areas. The Company has an option to extend the agreement for another period of 5 years. In light of reducing leased areas, rent and ancillary expenses decreased by approximately NIS 12 million per year, from 2021.

Note 33 - Related Parties (cont'd)

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms (cont'd)**:**

In 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. In August 2023, the Company extended the facility’s period until August 2025 (in lieu of February 2024), under similar conditions, except for changes, which are immaterial to the Company to the terms of the loans (including shortening the period of the long-term loan which will be provided through a fixed interest rate track only to 4 years, and a certain increase in the interest rate on the loans, and in the facility non-usage fee).
For further see Note 18 (C), regarding Credit and Loans from Financial Institutions.

In the ordinary course of business, from time to time, the Group purchases, leases, sells and cooperates in the sale of goods and services or otherwise engages in transactions with entities that are members of the DIC/IDB group (including companies holding companies in DIC/IDB group) or other interested or related parties.

The Group has examined said transactions and believes them to be on commercial terms comparable to those that the Group could obtain from/ provide to unaffiliated parties.

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.

Note 33 - Related Parties (cont'd)

C. Key management personnel compensation

In August 2023 the Company General Meeting, following the approval of the Company Remuneration Committee and Board of Directors, approved the renewal of letters of indemnification and exemption for Company officers who are serving and/or who may serve from time to time, who are Company controlling shareholders and/or in which the Company controlling shareholder may be considered an interested party in granting them, starting August 12 2023, with wording identical to the wording approved in August 2020.

Executive officers also participate in the Group's share option program (see Note 21, regarding Share-Based Payments).

Key management personnel compensation is comprised of:

	Year ended December 31		
	2021	2022	2023
	NIS millions		
Short-term employee benefits	3	5	**5**
Share-based payments	-	3	**2**
	3	8	**7**

D. Non-exceptional transactions

The Group contractually engages from time to time in the ordinary course of business, in negligible, non-exceptional transactions, with the controlling shareholder or in transactions in which the controlling shareholder has a personal interest in their approval, of the following types and characteristics: providing communication services, purchasing various services such as 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 attributed to shareholders in the parent company; sales ratio – the total sales subject to the transaction divided by the total annual sales of the Company; operating expenses ratio – the volume of expenditure subject of the transaction divided by the total annual operating expenses and the cost of end equipment and the ratio of liabilities – the liability subject of the transaction divided by the total liabilities in the balance sheet before the event.

Cellcom Israel Ltd.

Separate Financial Information

As at December 31, 2023

(Audited)

Contents **Pages**

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Building a better working world

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.
Dear Sirs,

Re: <u>Special auditors' report on the separate financial information in accordance with Regulation 9c of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970</u>

We have audited the separate financial information presented in accordance with Regulation 9c of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Cellcom Israel Ltd. ("the Company") as of December 31, 2023, and for the year then ended. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the separate financial information based on our audits.

The Company's Separate financial information as of December 31, 2022, and for each of the two years ended December 31, 2022, and 2021 audited by other auditors whose opinion on the separate financial information dated March 8, 2023, included an unqualified opinion.

We did not audit the separate financial information derived from the financial statements of investees, for which the assets net of liabilities attributable to them total approximately NIS 129 million thousand of December 31, 2023, and the Company's share of their losses amounted to approximately NIS 3 million thousand for the year ended December 31, 2023. 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 on the reports of the other auditors.

We conducted our audits 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 and significant estimates made by the board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the separate financial information referred to above is prepared, in all material respects, in conformity with Regulation 9c of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
March 11, 2024

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Information on Financial Position

	December 31,	
	2022	2023
	NIS millions	
Assets		
Cash and cash equivalents	611	**299**
Deposits	120	**-**
Trade receivables	606	**672**
Current tax assets	9	**8**
Other receivables, including derivatives	31	**25**
Current maturities of Loans to investees	-	**22**
Inventory	65	**65**
	1,442	**1,091**
Non-current assets		
Trade and other receivables	222	**210**
Property, plant and equipment, net	1,393	**1,452**
Intangible assets and others, net	438	**447**
Investments in investee companies	2,356	**2,646**
Loans to investees and capital notes	391	**376**
Right of use assets, net	634	**577**
	5,434	**5,708**
	6,876	**6,799**
Liabilities		
Current maturities of debentures	587	**596**
Current maturities of lease liabilities	168	**168**
Trade payables and accrued expenses	591	**610**
Provisions	84	**90**
Loans from investees	220	**512**
Other payables, including derivatives	213	**255**
	1,863	**2,231**
Non-current liabilities		
Debentures	2,317	**1,739**
Long-term lease liabilities	506	**444**
Provisions	24	**24**
Other long-term liabilities	9	**4**
Liability for employee rights upon retirement, net	10	**13**
Deferred tax liabilities	43	**81**
	2,909	**2,305**
	4,772	**4,536**
Total equity	2,104	**2,263**
	6,876	**6,799**

The accompanying notes are an integral part of these Separate financial statements.

March 11, 2024			
Date of approving the financial statements	Nataly Mishan-Zakai Chairman of the board	Daniel Sapir CEO	Gadi Attias CFO

Information on income and loss

	Year ended December 31		
	2021	2022	2023
	NIS millions		
Revenues	2,660	2,767	**2,837**
Cost of revenues	(2,116)	(2,125)	**(2,139)**
Gross profit	544	642	**698**
Sales and marketing expenses	(428)	(400)	**(437)**
General and administrative expenses	(219)	(216)	**(223)**
Credit gain (losses)	(2)	1	**4**
Other income (expense), net	48	50	**(4)**
Operating profit (Loss)	(57)	77	**38**
Financing income	18	38	**29**
Financing expenses	(171)	(190)	**(188)**
Financing expenses, net	(153)	(152)	**(159)**
Share in profit from investees companies	241	261	**290**
Profit before taxes on income	31	186	**169**
Tax on income	(4)	(29)	**(35)**
Net profit	27	157	**134**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information Comprehensive Income and loss

	Year ended December 31		
	2021	2022	2023
	NIS millions		
Net profit	27	157	**134**
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	1	1	**-**
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Re-measurement of defined benefit plan, net of tax	(2)	1	**1**
Total other comprehensive income (loss), net of tax	(1)	2	**1**
Total comprehensive Profit	26	159	**135**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Cash Flows

	Year ended December 31,		
	2021	2022	2023
	NIS millions		
Cash flows from operating activities			
Profit for the period	27	157	**134**
Adjustments for:			
Depreciation and amortization	729	679	**720**
Share-based payments	15	24	**24**
Net change in fair value of investment property	7	8	**1**
Tax expenses	4	29	**35**
Financing expenses, net	153	152	**159**
Share in profit from investees companies	(252)	(261)	**(290)**
Changes in operating assets and liabilities:			
Change in inventory	(6)	(18)	**-**
Change in trade receivables (including long-term amounts)	125	72	**129**
Change in other receivables (including long-term amounts)	(5)	15	**(178)**
Change in trade payables, accrued expenses and provisions	(96)	11	**29**
Change in other liabilities (including long-term liabilities)	76	217	**8**
Receipts (payments) for derivative hedging contracts, net	(5)	4	**14**
Income tax paid	(8)	(5)	**(1)**
Net cash from operating activities	764	1,084	**784**
Cash flows from investing activities			
Acquisition of property, plant and equipment	(308)	(320)	**(390)**
Acquisition of intangible assets and others	(167)	(223)	**(207)**
Investments in investee companies	2	8	**-**
Change in current investments, net	310	(120)	**120**
Interest received	1	8	**17**
Net cash used in investing activities	(162)	(647)	**(460)**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Cash Flows (cont'd)

	Year ended December 31,		
	2021	2022	2023
	NIS millions		
Cash flows from financing activities			
Receipts for derivative contracts, net	1	5	**2**
Repayment of long-term loans from financial institutions	(187)	-	**-**
Repayment of debentures	(389)	(396)	**(604)**
Receipt from issuance of debentures, net of issuance costs	-	491	**-**
Interest paid for leases	(22)	(27)	**(28)**
Interest paid for debentures	(99)	(82)	**(89)**
Receipt of loans from investees	120	10	**292**
Payment of principal of lease liabilities	(215)	(214)	**(210)**
Net cash used in financing activities	(791)	(213)	**(637)**
Changes in cash and cash equivalents	(189)	224	**(313)**
Cash and cash equivalents as at the beginning of the period	578	387	**611**
Effects of exchange rate changes on cash and cash equivalents	(2)	-	**1**
Cash and cash equivalents as at the end of the period	387	611	**299**

The accompanying notes are an integral part of these Separate financial statements.

Note 1- Basis of Preparation of the Financial Information

A. Definitions

"The company" – Cellcom Israel Ltd.

"Separate financial information" – separate financial information presented in accordance with regulation 9C to the securities regulations (Periodic and Immediate Reports) – 1970.

Unless stated otherwise, all the terms presented in the separate financial information are as defined in the Company's consolidated financial statements as of December 31, 2023 (hereinafter: "the consolidated financial statements").

"Investee companies" – Subsidiaries and investees.

"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. Working Capital

As of December 31, 2023, the Company has a working capital deficit of NIS 1,140 million. The working capital deficit in the Company's solo statement derives from the fact that all of the Company's debt is managed at the Company while some of the positive working capital is at fully controlled (100%) subsidiaries of the Company.

C. Main basis of Preparation of the Financial Information

Presented hereunder is financial information from the Group's consolidated financial statements as at December 31, 2023 (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)

D. 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.

Note 1- Basis of Preparation of the Financial Information (cont'd)

D. Transactions between the company and its investees (cont'd)

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, 2023						
	Carrying amount	**Conractual cash flow**	**st 1 year**	**nd 2 year**	**rd 3 year**	**4-5 years**	**More than 5 years**
	NIS milions						
Debentures*	**(2,386)**	**(2,605)**	**(681)**	**(555)**	**(445)**	**(697)**	**(227)**
Trade and other payables	**(1,336)**	**(1,336)**	**(1,336)**	**-**	**-**	**-**	**-**
Forward exchange contracts on foreign currencies	**(3)**	**(3)**	**(3)**	**-**	**-**	**-**	**-**
Other long-term liabilities	**(4)**	**(4)**	**-**	**(1)**	**-**	**(3)**	**-**
Lease liabilities	**(612)**	**(709)**	**(186)**	**(140)**	**(110)**	**(146)**	**(127)**
	(4,341)	**(4,657)**	**(2,206)**	**(696)**	**(555)**	**(846)**	**(354)**

	December 31, 2022						
	Carrying amount	**Conractual cash flow**	**st 1 year**	**nd 2 year**	**rd 3 year**	**4-5 years**	**More than 5 years**
	NIS milions						
Debentures*	(2,962)	(3,284)	(688)	(674)	(554)	(797)	(571)
Trade and other payables	(979)	(979)	(979)	-	-	-	-
Other long-term liabilities	(9)	(9)	-	(1)	-	(8)	-
Lease liabilities	(674)	(809)	(211)	(157)	(120)	(163)	(158)
	(4,624)	(5,081)	(1,878)	(832)	(674)	(968)	(729)

* Including accrued interest

Note 3 - Taxes on income

	Year ended December 31		
	2021	2022	2023
	NIS millions		
Current tax expense (income)			
Current year	-	1	**-**
Adjustments for prior years, Net	(1)	7	**2**
	(1)	8	**2**
Deferred tax expense			
Creation and reversal of temporary differences	5	21	**33**
Tax on income	4	29	**35**

Note 4 – Property, plant, equipment, intangible assets

	equipment Property, plant and	Intangible assets
	NIS millions	
Cost		
Balance at January 1, 2022	6,044	1,495
Additions	425	202
Disposals	(243)	(101)
Balance at December 31, 2022	6,226	1,596
Additions	**387**	**194**
Disposals	**(53)**	**(36)**
Balance at December 31, 2023	**6,560**	**1,754**
Accumulated Amortization		
Balance at January 1, 2022	4,753	1,097
Amortization for the year	322	162
Disposals	(242)	(101)
Balance at December 31, 2022	4,833	1,158
Amortization for the year	**328**	**185**
Disposals	**(53)**	**(36)**
Balance at December 31, 2023	**5,108**	**1,307**
Carrying amount at December 31, 2022	1,393	438
Carrying amount at December 31, 2023	**1,452**	**447**

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	
		2022	2023
		NIS millions	
Cellcom Fixed Line Communication L.P.	100%	1,629	**1,863**
Golan Telecom Ltd.	100%	409	**426**
Dynamica Cellular Ltd.	100%	187	**228**
I.B.C (Unlimited) Holdings L.P.	23%	131	**129**
		2,356	**2,646**

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 2023 and 2022 amounted NIS 3 million each year.

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 2023, 2022 and 2021 by approximately 228 NIS million, 228 NIS million and 228 NIS million, respectively.

C. Loans to investee companies

	December 31,	
	2022	2023
	NIS millions	
Loan to Golan Telecom Ltd. *	141	**126**
Capital Note - Golan Telecom Ltd.	250	**250**
	391	**376**

* The loan was granted as part of the sharing network agreement singing in 2017, half of which in includes an annual interest rate of 1.85% and is linked to the CPI, the other half includes an interest rate of 3.5% and is not linked.

Note 5 - Commitments, loans and significant transactions with Investees (cont'd)

D. Loans from investee companies

	December 31,	
	2022	2023
	NIS millions	
Short-term loan from Cellcom Fixed Line Communication L.P.	220	**440**
Short-term loan from Dynamica cellular Ltd *	-	**72**
	220	**512**

The loans from Cellcom Fixed Line and Dynamica includes an annual interest at the rate of the prime interest rate.

Note 6 - Events during and after the reporting period

A. For additional information regarding "Iron Swords" War, see Note 1 B to the consolidated financial statements;

B. For additional information regarding Maalot Rating, see Note 18 B to the consolidated financial statements;

C. For additional information regarding credit and loans from financial institutions, see Note 18 C to the consolidated financial statements;

D. For additional information regarding Commercial securities, see Note 18 D to the consolidated financial statements;

E. For additional information regarding share based payments and exercise of share options, see Note 21 to the consolidated financial statements;

F. For additional information regarding Collective employment agreements, see Note 30 E to the consolidated financial statements;

G. For additional information regarding Electricity supply agreement, see Note 30 G to the consolidated financial statements;

H. For additional information regarding claims, see Note 31 A to the consolidated financial statements;

I. For additional information regarding Incentive fund for fiber optic deployment, see Note 32 A to the consolidated financial statements.

Chapter D

Additional Details on the Corporation

December 31 2023

Regulation 9d – Report on Inventory of Liabilities

For the inventory of the Company's liabilities, see the immediate report published alongside the publication of this periodic report.

Regulation 10a – Concise Statements of Comprehensive Income for Each Quarter of 2023

For details on the concise comprehensive profit data for each of the quarters see Section 3.2 of the Board of Directors Report attached to this report.

Regulation 10(c) – Use of Proceeds of Securities while Taking Into Account the Goals of the Proceeds in Accordance with Prospectus

None.

Regulation 11(1) and 11(2) – List of Investments in Subsidiaries and Related Companies

The following tables presents the Company's investments in subsidiaries and material related companies, as of the balance sheet date.

Name of Company	No. of Share on Stock Exchange	Type of Share	Number of Shares	Total NV Held by Company	Value in the Company's Separate Financial Statements (Millions of NIS)	Company's Stake		
						in Equity	In Voting Rights	In the Authority to Appoint Board Members
Cellcom Fixed Line Communication (L.P.)	Not traded	-	-	-	1,863	100%	100%	100%
Golan	Not traded	Regular worth NIS 0.01 NV	21.664	217	426	100%	100%	100%
Dynamica	Not traded	Regular worth NIS 0.001 NV	1.003	1	228	100%	100%	100%

Regulation 11(3) – Balance of Debentures and Loans Granted and Received by the Company to Material Subsidiaries and Related Companies as of the Balance Sheet Date

Name of Company Providing Loan	Name of Company Receiving Loan	Balance of Loans/Capital Notes as of December 31 2023 (in Millions of NIS)	Key Terms of Loans
The Company	Golan	376	The balance is comprised as follows: (a) a NIS 126 million loan, half of which is linked to the CPI and bears interest of 1.85% per year, and one half of which is unlinked and bears interest of 3.5% per year. The loan was provided in April 2017 for a period of 10 years and shall be redeemed in 6 equal semiannual installments staring from the eighth year of the agreement period (interest and linkage differences that will be accumulated will be paid starting from the sixth year); and (b) capital notes to the sum of NIS 250 million. The capital notes are unlinked and do not bear interest, and their redemption date is not before September 2025.
Cellcom Fixed Line Communication (L.P.)	The Company	440	NIS loans that are not linked, which are provided from time to time in accordance with a framework agreement between the Company and Cellcom Fixed Line Communication (L.P.), for periods of up to 12 months. The loans bear Prime interest
Dynamica	The Company	72	NIS loans that are not linked, which are provided from time to time in accordance with a framework agreement between the Company and Dynamica for periods of up to 12 months. The loans bear Prime interest

Regulation 12 – Changes in Investments in Subsidiaries and Material Associated Companies in the Reported Period

No changes occurred in connection with the Company's investments in material subsidiaries and related companies during the reported period.

Regulation 13 – Revenues of Material Subsidiaries and Related Companies and the Company's Revenues from Them

The following table details the total profit (loss) of material Company subsidiaries and related companies (profit data is the consolidated data of these companies) and the Company's revenues from them received as of the balance sheet date, for 2023 as well as for the period subsequent to the Balance Sheet Date (in millions of NIS):

Company Name	Profit for the Period	Total Other Comprehensive Income for the Period	**Managements Fees** (received by December 31 2023).		**Interest and Linkage Differences** ((paid) received as of December 31 2023)		**Dividends**[1] (received by December 31 2023).	
			For 2023	**For the period after the balance sheet date**	**For 2023**	**For the period after the balance sheet date**	**For 2023**	**For the period after the balance sheet date**
Cellcom Fixed Line Communication (L.P.)	235	235	-	-	(24)	-	-	
Dynamica	41	41	1		(1)		-	
Golan	37	37	2	-	11	-	-	-

Regulation 20 – Stock Market Trade

1. There were no halts in trade of the Company on the Securities Exchange in the reported year.
2. Over the course of 2023, 433,172 unregistered options were exercised[2], and 396,830 RSU's vested, so that as a result of the exercises and the vesting in question 436,004 ordinary shares were listed for trade.

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[1] Cellcom Fixed Line Communication (L.P.) is a limited partnership, and accordingly it distributes its profits to the Company.

[2] The unregistered options were exercised using a net exercise mechanism (for details see Footnote 5 below).

Regulation 21 – Remunerations to Interested Parties and Senior Executives in 2023

The following are details regarding remunerations paid during the reported year, as recognized in the Company's Financial Statements in the reported year, to each of the five highest remunerated senior officers at the Company or at a corporation under its control (of whom at least 3 were officers serving at the Company itself) and which were granted them in connection with their service at the Company or in a company under their control, as the case may be (in thousands of NIS):

Details of Remuneration Recipient				Remuneration for Services							Other Remuneration			Total
Name	**Position**	**Employment**	**Holdings in Capital**	**Salary[3]**	**Bonus**	**Share-Based Payment[4]**	**Management Fees**	**Consul-ting Fees**	**Com-mission**	**Other**	**Interest**	**Rent**	**Other**	
Daniel Sapir[a]	CEO	100%	-	1,909	1,411	1,761								5,081
Eli Adadi[b]	VP of Retail and CEO of Dynamica	100%	-	1,289	857	1,023								3,169
Amsalem Nadav[d]	CEO of Gola	100%	-	1,352	601	588								2,541
Larisa Cohen	VP Legal Counsel and Regulation	100%		1,145	509	773								2,427
Teimuraz Romashvili[c]	VP of Sales and International Activity	100%	-	1,153	609	588								2,350

<u>The following is further information on the terms of service and employment of senior officers listed in the following table:</u>

a) **Mr. Daniel Sapir** serves as the Company's CEO since January 25 2022 (after starting with overlap period on January 9 2022). Mr. Sapir’s employment agreement is for an unlimited period of time and can be concluded at any time by either of the parties, with advance notice of three months in the first three years of his employment, and subsequently, with six months’ advance notice. Due to his service as Company CEO, Mr. Sapir is entitled to the following main terms: (a) a monthly salary of NIS 110,000 (linked to the Consumer Price index); (b) generally accepted associated benefits, including vacation days, sick days, executive insurance and an education fund; (c) a Company vehicle; (d) director and executive liability insurance, indemnification and releases accepted for Company executives and directors; (e) the option of entitlement to a yearly bonus and a special bonus in accordance with the terms of the Company’s remuneration policy. The Agreement established provisions on non-competition for a

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3 The salary component includes the following components: gross salary, social provisions and associated as accepted at the Company (such as vacation days, sick days, convalescence pay, executive insurance, education fund, pension, severance pay, life insurance, loss of work ability insurance, payments for social security, vehicles, medical insurance, telephone, tax grossing up for benefits and so on).

4 The sum listed in the above table under “Share-Based Payment” expresses the expenses recorded in the Company's Consolidated Financial Statements for the relevant period due to share-based remuneration, based on the fair value of the relevant options on their granting date, in accordance with accounting rules in connection with share-based remuneration.

period of 12 months from the end of the employment period and in the matter of confidentiality.

On February 28 2022, the Company General meeting approved the granting of 1,123,670 options (unregistered) to Mr. Sapir, which can be exercised into ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's capital remuneration plan[5], with a total value of NIS 6.65 million. The options shall vest in five equal batches after one, two, three, four and five years from their granting date.

For further details on the terms of service and employment of the CEO, see the Company's immediate reports from January 23 2022 and February 28 2022 (reference no.: 2022-01-010045, 2022-01-010090 and 2022-01-024424, respectively) included in this report by way of referral.

On March 11 2024, the Company Board of Directors, after receiving the approval of the Remuneration Committee and in accordance with the directives of the Company Remuneration Committee, decided to approve a special bonus payment to Mr. Sapir, to the sum of 1 million NIS, stipulated on the completion of a transaction to sell the shares of DIC to Fortissimo (for details on the transaction in question see Section 1.2.4 of Part A of this periodic report). The special bonus shall be paid against Mr. Sapir's obligation to continue serving in his position for a period of three (3) years from the completion of the transaction ("**the Commitment Period**"). Note that inasmuch as Mr. Sapir completes, on their own initiative, his service period before the end of the liability period as noted above, Mr. Sapir (subject to any law) will be required to repay the relative portion of the special bonus in question. The Company shall publish a summons report to the meeting of its shareholders, to approve the special bonus in question.

b) **Mr. Eli Adadi** serves as CEO of Dynamica and the Company's VP of Retail since November 23 2020. Mr. Adadi's employment agreement is for an unlimited period of time and can be concluded at any time by either of the parties, with six months' advance notice. Due to his service as CEO of Dynamica and Company VP, Mr. Adadi is entitled to the following main terms: (a) a monthly salary of NIS 75,000 (linked to the Consumer Price index); (b) generally accepted associated benefits, including vacation days, sick days, executive insurance and an education fund; (c) a Company vehicle; (d) director and executive liability insurance, indemnification and releases accepted for Company executives and directors; (e) the option of entitlement to a yearly bonus and a special bonus in accordance with the terms of the Company's remuneration policy. The Agreement established provisions on non-competition for a period of 12 months from the end of the employment period and in the matter of confidentiality. In addition, following the approval of the Company Remuneration Committee and Board of

[5] Upon the net exercise mechanism, during the exercise, the recipient does not pay the exercise price but will rather be issued shares the number of which will be determined according to the sum of the benefit the employee is entitled to deriving from the number of options exercised, multiplied by the difference between the market price of the share during realization and the exercise price of the option.

Directors, after the conclusion 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 Company Board of Directors, the Company allocated 203,164 options (unregistered) to Mr. Adadi, exercisable as 203,164 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's capital remuneration plan[6], with a total value of approx. NIS 882,000[7]. The options shall vest in three equal portions after one year, two years and three years from their granting date.

On May 16 2023 and July 13 2023, following the approval of the Remuneration Committee and Company Board of Directors, the Company allocated 276,658 and 477,519 (unregistered) options, exercisable as 276,658 and 477,519 ordinary shares of the Company, respectively, according to a net exercise mechanism according to an employee outline dated March 10 2022 and as amended and published on March 9 2023 (reference no.: 2023-01-025173) and in accordance with the Company's capital remuneration plan[8], at a total value of approx. NIS 2,800,000. The options shall vest in three equal portions after one year, two years and three years from their granting date, as the case may be.

On March 11 2024, the Company Board of Directors, after receiving the approval of the Remuneration Committee and in accordance with the directives of the Company Remuneration Policy, decided to approve a special bonus payment to Mr. Adadi, to the sum of NIS 571,000, stipulated on the completion of a transaction to sell the shares of DIC to Fortissimo (for details on the transaction in question see Section 1.2.4 of Part A of this periodic report). The special bonus shall be paid against Mr. Adadi's obligation to continue serving in his position for a period of three (3) years from the completion of the transaction (“**the Commitment Period**”). It should be noted that if Mr. Adadi completes, on his own initiative, his service period before the end of the commitment period as noted above, Mr. Adadi (subject to any law) will be required to repay the relative portion of the special bonus in question.

c) Mr. **Nadav Amsalem** serves as the CEO of Golan starting since May 23 2022 and prior to that, served as the Company's VP of Business Customers starting July 20 2017. Due to his service as CEO of Golan, Mr. Amsalem is entitled to the following main terms: (a) a monthly salary of NIS 77,800 (linked to the Consumer Price index); (b) generally accepted associated benefits, including vacation days, sick days, executive insurance and advanced study fund as accepted at the Company; (c) a Company vehicle; (d) directors and officers liability insurance,

6 See Footnote 5 above.

7 Prior to his appointment as Company officer, Mr. Adadi was granted options and RSU's, within the framework of his previous position. Mr. Adadi's capital remuneration package amounted as of this date (November 22 2020) to a total value of NIS 1.8 million.

8 See Footnote 5 above.

indemnification and release as accepted for Company officers and directors; and (e) the option of entitlement to a yearly bonus and a special bonus in accordance with the terms of the Company's remuneration policy. Mr. Amsalem's employment agreement is for an unlimited period of time and can be concluded with 6 months' advance notice. In addition, the Agreement established provisions on non-competition for a period of 12 months from the end of the employment period and in the matter of confidentiality.

On June 15 2020, following the approval of the Remuneration Committee and Company Board of Directors, the Company allocated 523,000 options (unregistered) to Mr. Amsalem, exercisable as 523,000 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's capital remuneration plan[9], with a total value of approx. NIS 1.8 million. The options shall vest in three equal portions after one year, two years and three years from their granting date.

On July 13 2023, following the approval of the Company Board of Directors, the Company allocated 477,519 (unregistered) options, exercisable as 477,519 ordinary shares of the Company, respectively, according to a net exercise mechanism according to an employee outline dated March 10 2022 and as amended and published on March 9 2023 (reference no.: 2023-01-025173) and in accordance with the Company's capital remuneration plan[10], at a total value of approx. NIS 1,800,000. The options shall vest in three equal portions after one year, two years and three years from their granting date, as the case may be.

d) **Mrs. Larisa Cohen** serves as VP of Regulation and Legal Counsel since May 1 2022 (first as Legal Counsel and Company Secretary, and since 2024 as VP of Regulation and Legal Counsel). Mrs. Cohen's employment agreement is for an unlimited period of time and can be concluded at any time by either of the parties, with advance notice of three months in the first three years of his employment, and subsequently, with six months' advance notice. Due to her service as Company VP of Regulation and Legal Counsel, Mrs. Cohen is entitled to the following main terms: (a) a monthly salary of NIS 70,000 (linked to the Consumer Price index); (b) generally accepted associated benefits, including vacation days, sick days, executive insurance and advanced study fund; (c) a Company vehicle; (d) director and officers liability insurance, indemnification and release as accepted for Company officers and directors; (e) the option of entitlement to a yearly bonus and a special bonus in accordance with the terms of the Company's remuneration policy. The Agreement established provisions on non-competition for a period of 12 months from the end of the employment period and in the matter of confidentiality.

On June 15 2022, following the approval of the Remuneration Committee and Company Board of Directors, the Company allocated 590,602 options (unregistered) to Ms. Cohen exercisable

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9 See Footnote 5 above.
10 See Footnote 5 above.

as 590,602 ordinary shares of the Company according to a net exercise mechanism in accordance with an employee outline dated March 10 2022 (reference no. 2022-01-028354) and in accordance with the Company's capital remuneration plan[11], with a total value of approx. NIS 1.8 million. The options shall vest in three equal portions after one year, two years and three years from their granting date.

On March 11 2024, the Company Board of Directors, after receiving the approval of the Remuneration Committee and in accordance with the directives of the Company Remuneration Policy, decided to approve a special bonus payment to Ms. Cohen, to the sum of NIS 258,000, stipulated on the completion of a transaction to sell the shares of DIC to Fortissimo (for details on the transaction in question see Section 1.2.4 of Part A of this periodic report).

e) **Mr. Teimuraz Romashvili** serves as VP of Sales and International Activity since October 23 2011. Mr. Romashvili's employment agreement is for an unlimited period of time and can be concluded at any time by either of the parties, with six months' advance notice. Due to his service as VP of Sales and International Activity, Mr. Romashvili is entitled to the following main terms: (a) a monthly salary of NIS 65,000 (linked to the Consumer Price index); (b) generally accepted associated benefits, including vacation days, sick days, executive insurance and advanced study fund; (c) a Company vehicle; (d) director and officers liability insurance, indemnification and release as accepted for Company officers and directors; (e) the option of entitlement to a yearly bonus and a special bonus in accordance with the terms of the Company's remuneration policy. The Agreement established provisions on non-competition for a period of 12 months from the end of the employment period and in the matter of confidentiality.

On June 15 2020, following the approval of the Remuneration Committee and Company Board of Directors, the Company allocated 523,000 options (unregistered) to Mr. Romashvili, exercisable as 523,000 ordinary shares of the according to a net exercise mechanism in accordance with the Company's capital remuneration plan[12], with a total value of approx. NIS 1.8 million. The options shall vest in three equal portions after one year, two years and three years from their granting date.

On July 13 2023, following the approval of the Company Remuneration Committee and Board of Directors, the Company allocated 477,519 (unregistered) options, exercisable as 477,519 ordinary shares of the, to Mr. Romashvili, according to a net exercise mechanism according to an employee outline dated March 10 2022 and as amended and published on March 9 2023 (reference no.: 2023-01-025173) and in accordance with the Company's capital remuneration plan[13], at a total value of approx. NIS 1.8 million. The options shall vest in three equal portions after one year, two years and three years from their granting date.

On March 11 2024, the Company Board of Directors, after receiving the approval of the Remuneration Committee and in accordance with the directives of the Company Remuneration

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11 See Footnote 5 above.
12 See Footnote 5 above.
13 See Footnote 5 above.

Policy, decided to approve a special bonus payment to Mr. Romashvili, to the sum of NIS 406,000, stipulated on the completion of a transaction to sell the shares of DIC to Fortissimo (for details on the transaction in question see Section 1.2.4 of Part A of this periodic report).

Interested Parties Remuneration

The directors serving at the Company and who will be serving in it from time to time are entitled to a participation remuneration payment and a yearly remuneration to a sum that is the "maximum sum" as set in the Companies Regulations (Rules regarding Remuneration and Expenses for an External Director), 5760-2000 ("**the Remuneration Regulations**") according to the Company's rank as well as in accordance with the director being an "expert director" or a non-expert. The directors are not entitled to a bonus or capital remuneration.

For 2023 the Company paid all of the directors' remuneration to a total sum of NIS 2 million. The terms of these remunerations meet the conditions of the Company's remuneration policy.

In addition, the directors serving at the Company, as they may be from time to time, are entitled to director and officers liability insurance, indemnification and release as accepted regarding the Company's officers and directors. For details see Regulation 29a below.

Regulation 21 – Controlling Shareholders

As of the publication of the report, the Company's controlling shareholder is DIC, a public company the securities of which are traded on the stock exchange, which holds 35.56% of the Company's issued share capital and 37.63%[14] of its voting rights, via Koor Industries Ltd. ("**Koor**"), a subsidiary fully owned by DIC. As reported by DIC, it is a company with no controlling shareholder.

For details on DIC's report that it had engaged in an agreement with Fortissimo Capital Fund VI, L.P to sell its holdings in Company shares, see Section 1.2 of Chapter A of this report.

Regulation 22 – Transactions with the Controlling Shareholder

The following is information, to the extent of the Company's knowledge, regarding transactions with the controlling shareholder or in which the Company's controlling shareholder have personal interest in their approval, in which the Company, companies under its control or related companies (hereinafter in this section: "**the Group**") engaged in during the reported period or on a date after the end of the reported year and until the submittal of the report or which is still in effect as of this report:

[14] To the best of the Company's knowledge, 2.06% of the voting rights DIC has in the Company are by virtue of an agreement with Company minority shareholders holding 2.06% of the Company's issued stock capital, within the framework of which voting rights were transferred to DIC. To the best of the Company's knowledge, DIC converted its rights by virtue of the agreement to Koor.

a. Transactions Listed in Section 270(4) of the Companies Law, 1999 ("the Companies Law")[15]:

For details on release, indemnification and insurance arrangements granted directors serving at the Company on behalf of its controlling shareholder, see Regulation 29a below.

b. Transactions Not Listed in Section 270(4) of the Companies Law and Which are Non-Negligible

On March 6 2023, the Company Audit Committee approved an engagement agreement to purchase and supply electricity over the normal course of business and under market conditions, with a company from the Elco Ltd. Group, which for the purposes of this chapter is considered the Company's controlling shareholder or in which the Company's controlling shareholders have a personal interest. The engagement in question, which came into effect in July 2023, is for a period of 4 years (and includes an automatic renewal for additional periods of 12 months each, and subject to the right to end the agreement in cases detailed in it) and is expected to be to the scope of approx. NIS 40 million per year.

For details on the Company's activity (to a non-material scope) in providing electricity to business and private customers, see Section 8.2.1.(8) of Chapter A of this report.

c. Transactions Not Listed in Section 270(4) of the Companies Law and Which Are Negligible

The Group engages from time to time over the normal course of business in negligible, non-irregular transactions with the controlling shareholder or in transactions in which the controlling shareholder has (or may have) a personal interest in approving them, of types and with characteristics, among other things as detailed below: the provision of communications services and services and associated equipment, the purchase of various services such as maintenance services for equipment and facilities used by the Company's activities, security services, building management and maintenance services and rental of real estate properties.

According to Company procedures, in the absence of special qualitative considerations arising from the circumstances, a transaction of this sort that is not an irregular transaction shall be considered a negligible transaction for the above purposes, if the

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[15] The Company's controlling shareholder is DIC. For the sake of caution and in light of the provisions of Section 268 of the Companies Law, the Company in this regulation only refers also to Elco Ltd. (and its controlling shareholders) and Mega Or Holdings Ltd. (and its controlling shareholder) as controlling shareholders, due to their holdings in DIC.

scope of the specific transaction does not exceed NIS 10 million and the transaction is at a rate of under 0.5% of the relevant quantitative test between the following indices: ratio of assets to scope of assets covered by the transaction (the assets purchased or sold) divided by the total assets in the Company's balance sheet; the assets/profits or losses ratio, in practice or projected, attributed to the transaction divided by the average yearly profit or loss (in absolute values) of the Company in the last twelve quarters ended prior to that transaction. In this regard, "profit" or "loss" is: a net profit or loss for the year attributed to the shareholders in the parent company; ratio of sales – total sales covered by the transaction divided by the Company's total yearly sales total; operational expenses/scope of expense covered by the transaction ratio divided by total yearly operating costs and the cost of end equipment and the ratio of the liabilities to the liabilities covered by the transaction divided by the total liabilities in the balance sheet prior to the transaction.

For further details see Note 33 to the Financial Statements.

<u>Regulation 24 – Holdings of Interested Parties and Senior Executives in the Corporation</u>

For details on the holdings of interest parties and senior officers in the Company's securities near the report date, to the best of the Company's knowledge, see the Company's immediate report dated January 7 2024 (reference no. 2024-01-002868), included in this report by way of referral.

<u>Regulation 24a – Registered Capital, Issued Capital and Convertible Securities</u>

For details on the Company's registered share capital and issued and outstanding capital, including in the matter of convertible securities, see Note 20 to the Financial Statements.

<u>Regulation 24b - Shareholders Register</u>

For details on the registry of the Company sharesholders, to the best of the Company's knowledge, see the Company's immediate report dated March 5 2024 on the matter of capital holdings, granting rights to purchase shares and registries of securities and changes therein (reference no.: 2024-01-022590) included therein by way of referral.

<u>Regulation 25a – Listed Address, Telephone, Fax and Email</u>

The corporation's registered address: 10 Hagavish, P.O Box 4060, Netanya.

Telephone no.: 052-9989595

Fax: 09-8607986

Email: cellcom_sec@cellcom.co.il

Regulation 26 – Corporate Directors

For details on directors serving at the Company as of the publication of the report see **Appendix A** attached to this report.

Regulation 26a – Senior Executives

For details on the senior executives serving at the Company who are not members of the Board of Directors see **Appendix B** attached to this report.

Regulation 26b – Independent Authorized Signatories

As of the report date, the Company has no independent authorized signatories.

Regulation 27 – Corporate Auditing Accountant

As of June 1 2023, Cost, Forrer, Gabai and Ksierrer (EY), 144A Menachem Begin Rd., Tel Aviv-Jaffa 6492102.[16]

Regulation 28 – Changes in Corporation's Memorandum or Articles of Incorporation

Over the course of the reported period, no material change has occurred regarding the Company's articles of incorporation.

Regulation 29 – Recommendations and Decisions by the Board of Directors

a. The Board of Directors' Recommendations Before the General Meeting and Board Resolutions Not Requiring General Meeting Ratification

(1) Payment of dividends of performing distribution as defined in the Companies Law, in some other way or distribution of benefit shares – none.

(2) Changes in the registered or issued capital of the corporation – non.

(3) Changes in corporation's memorandum or articles of incorporation – none.

(4) Redemption of redeemable securities – none.

(5) Early redemption of debentures – none.

(6) Transaction not in accordance with market conditions, between the corporation and an interested party in it, with the exception of a transaction between the corporation and its subsidiary – none.

b. Resolutions of the General Meeting passed not in accordance with the Directors' recommendations on the subjects detailed in the regulation – none.

c. Resolutions of the Special General Meeting

[16] Until June 1 2023, Kesselman and Kesselman (PWC Israel) as the Company's auditing accountant. For further details, see the report on the summons of the special meeting of Company shareholders dated May 17 2023 (reference no.: 2023-01-052800) and a report on the results of the meeting dated June 1 2023 (reference no.: 2023-01-060210), included therein by way of referral.

1. On June 1 2023 the Company's Extraordinary General Meeting, after receiving the approvals of the Company Audit Committee and Board of Directors, approved the appointment of Cost Forer (EY) as the Company's auditing accountant (in lieu of Kesselman and Kesselman (PWC)), until the Company's next yearly meeting, and certified the Company Board of Directors to determine the salary of the auditing accountant. For details see the Company's immediate reports dated May 17 2023 and June 1 2023 (reference nos.: 2023-01-052800 and 2023-01-060210, respectively), included herein by way of referral.

2. On August 21 2023 the Company's Extraordinary General Meeting, after receiving the approvals of the Company Remuneration Committee and Board of Directors, approved (1) the remuneration policy for Company officers, for a period of 3 years starting from the end of the previous policy period (meaning as of August 12 2023) and (2) the renewal of letters of indemnification and release for Company officers who are serving and/or who may serve from time to time, who are Company controlling shareholders and/or in which the Company controlling shareholder may be considered an interested party in granting them, starting August 12 2023. For additional information see the Company's immediate reports dated August 9 2023 and August 21 2023 (reference nos. 2023-01-092190 and 2023-01-096375 respectively), included by way of referral.

Regulation 29a – Corporate Decisions

a. The Board of Directors' Recommendations Before the General Meeting and Board Resolutions Not Requiring General Meeting Ratification

(1) Approval of actions in accordance with Section 255 of the Companies Law – none.

(2) Action in accordance with Section 254(a) of the Companies Law that was not approved – none.

(3) Transactions requiring special approvals in accordance with Section 270(1) of the Companies Law, so long as the transaction is irregular as defined in the Companies Law:

On March 8 2023 the Company Board of Directors, after receiving the approval of the Company Audit Committee, without getting into the matter of the irregularity of the engagement, decided to approve the Company's engagement in an additional agreement with IBC, within the framework of which it was decided, among other things, that starting July 1 2023 the Company's group would increase its commitment to purchase from IBC an IRU for the IBC infrastructure lines. For details on the agreement in question (signed on March 26 2023) see Section 17.1.4.(2) of Chapter A of this report.

(4) Release, insurance or commitments to indemnify officers, in effect from the report date:

b. Director and Executive Liability Insurance

On February 2 2023, the Company's Remuneration Committee approved, in accordance with the Company's remuneration policy and Regulation 1.B.1. of the Companies Regulations (Relief in Transactions with Interested Parties), 2000 ("**the Relief Regulations**"), the Company's engagement in a directors and officers liability insurance policy, including for officers who are controlling shareholders of the Company and/or relatives of theirs (as they exist from time to time), for a 12-month period starting February 5 2023 to February 4 2024, granting the directors and officers at the Company insurance coverage within liability limits of up to fifty million dollars per claim and on accumulated basis, plus reasonable legal expenses beyond the liability limit in question. The premium for the policy for the current insurance period is lower than what the Company paid for the insurance period of the policy ending February 4 2023. The terms of the policy (including the premium and the deductible) meet the criteria set in the Company's remuneration policy regarding executive insurance approved at the meeting of Company shareholders as it was in effect upon the approval of the engagement as well as in the Company's current remuneration policy as approved in August 2023. The terms of the insurance policies in question are identical for all officers and director at the Company (including regarding the Company CEO and regarding the directors serving on behalf of the Company controlling shareholder).

On January 31 2024, the Company's Remuneration Committee approved, in accordance with the Company's remuneration policy and Regulation 1.B.1. of the Relief Regulations, the Company's engagement in a directors' and officers' liability insurance policy, including for officers who are controlling shareholders of the Company and/or relatives of theirs (as they exist from time to time), for a 12-month period starting February 5 2024 to February 4 2025, granting the directors and officers at the Company insurance coverage within liability limits of up to fifty million dollars per claim and on accumulated basis, plus reasonable legal expenses beyond the liability limit in question. The premium for the policy for the current insurance period is lower than what the Company paid for the insurance period of the policy ending

February 4 2024. The policy includes continued coverage with no changes in terms even after the transaction transferring control of the Company, inasmuch as it is completed (for details on the transaction in question, see Section 1.2 to Chapter A of this report). The terms of the policy (including the premium and the deductible) meet the criteria set in the Company's remuneration policy regarding executive insurance approved at the meeting of Company shareholders in August 2023. The terms of the insurance policies in question are identical for all officers and director at the Company (including regarding the Company CEO and regarding the directors serving in it on behalf of the Company controlling shareholder).

c. Commitment to the Indemnification and Release of Board members and Officers

The Company has granted letters of release and indemnification to directors and officers serving at the Company and who serve at the Company from time to time, as well as to officers serving or who may serve from time to time, from the Company in other corporations in which the Company holds the means of control (as defined in the Companies Law), directly and/or indirectly ("**Different Corporation**"), including the Company CEO.

Within the framework of the letters of indemnification and release the Company undertook to indemnify the parties in question for any liability and/or expense and/or reasonable litigation expenses, as detailed in the letter of indemnification, imposed on them as a result of their activities by virtue of being Company officers and/or officers or employees on behalf of the Company in some other corporation, so long as the maximum sum of the indemnification for monetary liabilities imposed on the parties in question in accordance with legal verdicts (including verdicts issued in a settlement or arbitrator's ruling approved by the Court) does not exceed (on a cumulative basis for all officers, per individual case and on a cumulative basis for call cases (on a sum equal to the total insurance payments, the Company will receive from time to time within the framework of any Company executive liability insurance, plus a sum equal to 30% of the Company's capital according to its audited monetary results as of December 31 2001, adjusted from time to time according to the increase rate in the Consumer Price Index since that day ("**the Maximum Indemnification Sum**"). To be clear, the indemnification shall apply beyond the sum paid (if and inasmuch as it is paid) within the framework of the directors; and officers' liability purchased by the Company or which the Company will purchase from time to time.

In addition, within the framework of the letters of indemnification and release, the Company has exempted the parties in question from any liability towards it (as much is this is permitted by law) regarding any damage caused it by the parties in question by virtue of them being Company officers and/officers employed by the Company in a different corporation, as a result of the violation of the caution obligation (with the exception of damage as a result of the violation of the caution obligation in distribution) as defined in the Companies Law.

On August 12 2020 the Company General Meeting, following the approval of the Company Remuneration Committee and Board of Directors, approved the renewal of the granting of letters of release and indemnification with a text identical to the directors who are serving and who may serve from time to time at the Company on behalf of the Company controlling shareholder for a period of three years. Within this framework, the letter of release and indemnification granted the directors from the controlling shareholders as well as those that would be granted the officers from the approval date in question were update as follows: (1) it was determined that the maximum sum of indemnification would not exceed a sum equal to 25% of the Company's equity according to its last consolidated Financial Statements prior to the payment of indemnification; and (2) it was decided that the release would not apply regarding a decision or transaction in which the Company’s controlling shareholder or some officer in the Company have a personal interest. This is without detracting from the rights of directors and officers to whom the letters of indemnification and release have been granted prior to such an approval date.

On August 21 2023 the Company General Meeting, following the approval of the Company Remuneration Committee and Board of Directors, approved the renewal of letters of indemnification and release for Company officers who are serving and/or who may serve from time to time, who are Company controlling shareholders and/or in which the Company controlling shareholder may be considered an interested party in granting them, starting August 12 2023, with wording identical to the wording approved in the August 12 2020 Company General Meeting.

Nataly Mishan Zakai Chairwoman of the Board of Directors	Daniel Sapir CEO

March 11 2024

Appendix A – Details on Directors in the Corporation as of the Report Date [17] (According to Regulation 26)

Director Name	Nataly Mishan Zakai, Chairwoman	Samy Bakalash [18]	Shmuel Hauser	Michael Yosef Zelkind
ID Number	031781180	012299764	053488342	022972020
Date of Birth	September 8 1974	August 20 1960	May 13 1955	April 18 1967
Address for legal correspondence	ToHa, 114 Yigal Alon, Tel-Aviv	6 Hashechfim, Ra'anana	19 Amirim, Savion	53 Hagderot, Savion
Citizenship	Israeli	Israeli	Israeli	Israeli
Membership of Board of Directors committees	Security Committee, Options Committee, Electricity Committee	No	Audit Committee, Remuneration Committee, Security Committee, Exposure Committee and Electricity Committee.	-
Are they an external or independent director?	No	No	External Director	No
Start of Service as Director	Director – June 30 2022 Chair of the Board of Directors – July 12 2022	December 21, 2023	March 29 2019	June 24 2021
Do they have accounting and financial competency or professional qualifications?	-	accounting and financial expertise	accounting and financial expertise	-
Education	L.L.B, Tel Aviv University; Certified in Commercial Law, Tel Aviv University.	BA in Accounting and Economics, Tel Aviv University; MBA specializing in Finance, Bar Ilan University	B.A. in Statistics and Economics, Hebrew University in Jerusalem; MBA – Financing, Hebrew University in Jerusalem; PhD., Temple University (Florida).	B.A. in Business Administration from Boston University, U.S.; MBA from Columbia University, U.S.A.
Primary Occupations in the Past 5 Years	CEO of Discount Investment Corporation Ltd. and Property &	2010-now: CEO of Bakalash Consulting and Investments Ltd.	2006-now; Vice President of Ono Academic Quarter; 1995-now: professor emeritus in Financing, Ben	Director and Joint CEO at Elco Ltd.; Chair of the Board of Directors of

[17] Order of Directors after the Chair of the Board of Directors is in alphabetical order of last names.

[18] Mr. Bakalash is a director recommended by the Company's Workers' Committee, in accordance with the terms of the Company's collective agreement that grants the Committee the right to recommend one director on the Board of Directors.

Director Name	Nataly Mishan Zakai, Chairwoman	Samy Bakalash [18]	Shmuel Hauser	Michael Yosef Zelkind
	Building Corporation Ltd. starting July 2022. Legal Counsel at Harel Investments in Insurance and Finance Ltd. from August 2014 to May 2022. Chairwoman of Board of Directors at the Harel Group Pension and Provident Copmpanies until May 2022. Director at Mehadrin Ltd. (Chair) until August 2023 and Epsilon Investments Ltd. until February 2023.	2010-now: lecturer at directors and property management course at Amutot; 2015-now: member of the Appellant Committees of the Tel Aviv District Court; 2005-now: public representative at the City of Ra'anana and its committees; 2021-now: member of managing committee at the Ra'anana Senior Citizens' Association; 2022-now: member of managing committee at the Beit Zimmerman Association; 2022-2023: Erica Be-Cure Laser Ltd. (external director); 2020-2021: General Manager at Israel Knesset; 2018-2020: director at the Consulting Council at the Petroleum Affairs Supervisor; 2017-2020: director at Ramat Rachel Company; 2016-2020: Chair of the Board of Directors of Ayalon Financial Solutions (2004) Ltd.; 2016-2020: director at Ayalon Trustees Insurance Agency; 2020: director at Cellcom Israel Ltd.; 2016-2019: director at Government Tourism Company.	Gurion University in the Negev; 2006-now: owner, CEO and Chair of Narrative Ltd. 2020-2024: consultant for eToro company; 2011-2018: Chair of the Securities Authority; 2011-2018: joint chair of the Israeli Accounting Standards Board; 2011-2018 member of the representative committee for the Supervisor of Banks; 2017-2018: member of the consulting council for the Capital Market, Insurance and Savings Authority; 2019-2020: member of the consulting committee of CyberRight Tech; 2020-now: member of the Investments Committee of the Israeli Democracy Institute.	Electra Ltd. and director at companies from the Elco Group. Director at Property and Building Corporation Ltd. until December 2020, Elron Ventures Ltd. until April 2022, Mehadrin Ltd. until November 2021 and Golan Telecom until August 2022.
Within the framework of their education and/or occupation from the past 5 years, do they	No	No	No	No

Director Name	Nataly Mishan Zakai, Chairwoman	Samy Bakalash [18]	Shmuel Hauser	Michael Yosef Zelkind
have experience, expertise or skills in the matter of information of cyber security				
Other Corporations in Which He Serves as Director	Gav-Yam Land Corporation Ltd., Elron Ventures Ltd, Epsilon Underwriting and Issuing Ltd. and in additional private companies held by Property & Building Corp. Ltd.	Migdalor Alternative Products Ltd. (external director); the Government Tourism Company (Chair of the Board of Directors).	G-City Ltd. (external director); ESH Bank Israel Ltd. (under establishment) (Chair); Rainbowtech Merger Ltd. until 2022.	Discount Investment Corporation Ltd., Cellcom Israel Ltd, Gav-Yam Land Corporation Ltd. (Chair), Electra Consumer Products (1970) Ltd. (and private companies from this group), Electra Real Estate Ltd., Electra Power (2019) Ltd. (and private companies from this group), G. Zelkind Ltd., Michael and Marcey Zelkind Holdings (1997) Ltd., Dream Theater Ltd., Elco Hospitality Ltd., Elco Alpha Ltd.
Are they an employee of the Company, of a subsidiary or of a related company or of a corporate interested party?	CEO of Discount Investment Corporation Ltd. and Property & Building Corporation Ltd., an interested party in the corporation.	No	No	No
Are they a family member of a Company other interested party?	No	No	No	Mr. Michael Zilkind is the brother of Mr. Daniel Zilkind, and together they are the controlling shareholders at Elco Ltd., an interested party in the Discount Investment Group.
Does the Company consider them a director with accounting and financial expertise for the purpose of meeting the minimum number set by the Board of Directors as per Section 92(a)(12) of the Companies Law?	No	Yes	Yes	No

Director Name	Gustavo Traiber	Baruch Itzhak	Shani Levi	Varda Liberman
ID Number	011148426	029274693	066665712	05369319
Date of Birth	November 3 1961	July 19 1972	September 3 1984	February 1 1948
Address for legal correspondence	39 Rupin, Tel Aviv	ToHa Tower, 114 Yigal Alon, Tel Aviv	Shilat Industrial Zone, P.O. Box 1174, Mercaz Mobile Post	9 Harav Nissim, Tel Aviv
Citizenship	Israeli	Israeli and U.S.	Israeli	Israeli
Membership of Board of Directors committees	Audit Committee, Remuneration Committee, Security Committee, Exposure Committee and Electricity Committee.	Security Committee and Exposure Committee	-	Audit Committee, Remuneration Committee, and Options Committee.
Are they an external or independent director?	Independent Director	No	No	External Director
Start of Service as Director	March 28 2019	August 2 2021	June 1 2023	March 29 2019
Do they have accounting and financial competency or professional qualifications?	accounting and financial expertise	accounting and financial expertise	No	professional qualifications
Education	B.A. in Political Science and International Relations, Hebrew University in Jerusalem; MBA specializing in Finance, the Herzliya Interdisciplinary Center.	B.A. in Business Administration, College of Management; C.PA.	LLB, College of Management, Academic Route	B.Sc. in Mathematics and Statistics, M.Sc. in Mathematics, Ph.D. in Mathematics, Tel Aviv University
Primary Occupations in the Past 5 Years	2006-now: Owner of Travor Investments Ltd.; 2014-now: owner and CEO, Spain-Israel Investments Ltd.; 2022-now: manager and partner, Mirablin Real Estate Limited Partnership. Director at Adama Agricultural Solutions (External Director) until March 2024 and at the Agricultural Exchange Ltd. until October 2023.	July 2021 to now: CFO at Discount Investments Company Ltd.; May 2020 to now: CFO at Property and Building Corporation Ltd.; Director at Mehadrin Ltd. until August 2023, Epsilon Investments Ltd. until February 2023 and Elron Ventures Ltd. (alternate) until July 2022. 2018-2020: CEO of Sapir Corp. Ltd.; 2016-2018 CEO of Elad US Holding INC.; 2016-2018 Chair and CEO of Elad National 2017 LLC.	January 2018-now: Legal Counsel and Company Secretary at Mega Or Holdings Ltd.	February 2022-now: Vice President of Academic Affairs, Reichman University; 2016-now: founder and head of MBA in innovation in the field of health program, Reichman University; 2012-now: head of decision-making field, Arison School of Business Administration, Reichman University; 1995-now: staff member (professor) at Arison School of Business Administration, Reichman University; 1995-now: Head of Mathematics and Statistics, Reichman University;

Director Name	Gustavo Traiber	Baruch Itzhak	Shani Levi	Varda Liberman
				Dealing in the provision of lectures and workshops to organizations in all fields, on the subject of decision making and risk management under conditions of uncertainty. Aquarius Motors (A.M.) Ltd. (external director) to October 2022.
Within the framework of their education and/or occupation from the past 5 years, do they have experience, expertise or skills in the matter of information of cyber security	No	No	No	No
Other Corporations in Which He Serves as Director	-	IDB Group Investments Inc. and investees of Discount Investment Corporation Ltd. and Property & Building Ltd..	-	Director at Plus 500
Are they an employee of the Company, of a subsidiary or of a related company or of a corporate interested party?	No	Chief Financial Officer at Discount Investment Corporation Ltd. and Chief Financial Officer at Property & Building Corporation Ltd.	Legal Counsel and Company Secretary at Mega Or Holdiongs Ltd. ("**Mega Or**") appointed by Mega Or as Company Director serving as the Company's "Israeli Element" in accordance with the Mobile Radio Operator license.	No
Are they a family member of a Company other interested party?	No	No	No	No
Does the Company consider them a director with accounting and financial expertise for the purpose of meeting the minimum number set by the Board of Directors as per Section 92(a)(12) of the Companies Law?	Yes	Yes	No	No

Appendix B – Details on Senior Executives in the Corporation as of the Report Date (According to Regulation 26A)

Name of Officer	Daniel Sapir	Gadi Attias	Larisa Cohen	Dafna Agassi Bar
ID Number	027701747	032217085	034211235	027990134
Date of Birth	April 18 1970	May 5 1975	July 22 1977	December 24 1970
Start of Service	January 25 2022	March 11 2022	May 1 2022	March 1, 2022
Position at the Company	CEO	CFO	VP, General Counsel & Regulation	CMO
Position at a subsidiary, related company or Company interested party	Director at Cellcom Holdings (2001) Ltd., Dynamica Communications Chain Stors Ltd., Netvision Ltd., 013 Netvision Land-Based Communications 2006 Ltd. (In voluntary liquidation), IBC Holdings GP Ltd., IBC Israel Broadband Company (2013) Ltd., Golan Telecom Ltd., Golan Telecom International Ltd.; Golan Tel Communications (2011) Ltd., the Purple Community Ltd., Cellcom Energy G.P Ltd.	Director at Cellcom Holdings (2001) Ltd., Golan Telecom Ltd., Golan Telecom International Ltd.; Golan Tel Communications (2011) Ltd., IBC Holdings GP Ltd., CMG Network Management Ltd. and Safeway - Data Protection Solutions Ltd., the Purple Community Ltd., Cellcom Energy G.P Ltd., Netvision Ltd., C.G. Management Ltd. (In voluntary liquidation).	Director at Dynamica Communications Chain Stors Ltd., Golan Telecom Ltd., Golan Telecom International Ltd.; Golan Tel Communications (2011) Ltd., Cellcom Energy G.P Ltd., C.G. Management Ltd. (In voluntary liquidation).	Director at the Purple Community Ltd.
Are they a family member of a senior executive at the Company of other Company interested party	No	No	No	No
Education	B.A. in Business Administration, College of Management; MBA, Ono Academic Quarter.	BA in Accounting and Economics, Hebrew University.	LLB and B.A. in Social Sciences, Hebrew University LLM, Tel Aviv University	BA. in Physical Education with expertise in cardia patient rehabilitation, Wingate Institute; MBA with specialization in Marketing, Harriot-Watt (UK).

Name of Officer	Daniel Sapir	Gadi Attias	Larisa Cohen	Dafna Agassi Bar
Occupation over the past five years	2012-2022: CEO of Tikshuv Group	2019-2022: CFO at Livneh Tzfoni Ltd.; 2012-2019: CFO at Tikshuvim Business Communications Center Ltd. (Tikshuv Group) ("**Tikshuv**"); 2014-2019: director at Tikshuv investees.	Until July 2022 VP, Legal Counsel and Company Secretary at Discount Investment Corporation Ltd. and Property & Building Corporation Ltd. Until July 2022 Director at Bartan Holdings and Investments Ltd. (Chair), Epsilon Investment House Ltd. and investees of Property & Building Corp. Ltd. Until October 2020 director at IDB Group USA Investment Corp. Until September 2020 VP and Company Secretary at IDB Development Corporation Ltd.	2014-2022 CMO, Golan
Within the framework of their education and/or occupation from the past 5 years, do they have experience, expertise or skills in the matter of information of cyber security	No	No	No	No

Name of Officer	Sivan Shushan Lisha	Avraham Grinman	Teimuraz Romashvili	Victor Malka
ID Number	066038159	028498558	313974123	069478923
Date of Birth	August 27 1982	May 23 1971	January 1 1979	August 7 1957
Start of Service	June 15 2022	June 12 2022	October 23 2011	March 18, 2020
Position at the Company	VP Business Department	VP of Engineering	VP of Sales and International Activity	Chief Information Officer
Position at a subsidiary, related company or Company interested party	Director and CEO of Safeway - Data Protection Solutions Ltd., subsidiary of the Company.	Director at CMG Network Management Ltd.	-	Director at the Purple Community Ltd.
Are they a family member of a senior executive at the Company of other Company interested party	No	No	No	No

Name of Officer	Sivan Shushan Lisha	Avraham Grinman	Teimuraz Romashvili	Victor Malka
Education	B.A. in Business Administration from the Center for Academic Studies.	B.A. in Business Administration specializing in information systems, College of Management. EMBA from Bar Ilan University.	B.A. in Economics and Management, Kiev University of Economics, Ukraine.	B.Sc in Mathematics, Technion Israeli Technological Institute; M.Sc in Performance Research and Systems Analysis, the Technion – Israeli Technological Institute.
Occupation over the past five years	Manager of ENT Customers and Technologies and Head of Land-Based ENT Customers at the Company until June 2022.	2020-2022 - Manager of Network Maintenance and Operation Section, Pelephone. Network Operation Department Manager at the Company, until 2020.	2011-2020: VP of Prepaid Activity at the Company.	2019-2020: Active Communications Consultant; 2012-2019: Manager, Information Systems Department at the Technologies Division of Bezeq the Israeli Communications Company Ltd.
Within the framework of their education and/or occupation from the past 5 years, do they have experience, expertise or skills in the matter of information of cyber security	Director at Safeway - Data Protection Solutions Ltd., a company fully owned (100%) by the Company, which accompanies and provides comprehensive solutions for organizations and companies in the field of information security and cyber security with multiple hours of training and extensive experience with varied information security manufacturers.	Yes. By virtue of their position as VP of Engineering, also responsible for the field of information security at the Company.	No	Yes. By virtue of their position as Chief Information Officer.

Name of Officer	Eli Adadi	Ami Shtramer	Bosmat Levi Feuer	Ronen Shalaz
ID Number	033141383	040849713	043137066	23077316
Date of Birth	August 26 1976	April 30 1981	July 14 1981	November 9 1967
Start of Service	November 23 2020	May 29 2022	July 13 2023	December 1 2014
Position at the Company	VP of Retail	VP of Human Resources	VP of Private Sector	Comptroller
Position at a subsidiary, related company or Company interested party	CEO of Dynamica Communications Shops Ltd.	Director at the Purple Community Ltd.	No	Barak ATC (1999) – International Telecommunications Services Company (Satellite Holdings) Ltd. (undergoing voluntary liquidation); Cellcom Fixed Line Communications Inc.
Are they a family member of a senior executive at the Company of other Company interested party	No	No	No	No
Education	B.A. in Business Administration, Ben Gurion University in the Negev; MBA specializing in Marketing, Ben Gurion University in the Negev.	-	B.A. in Business Administration in the Executive BA program – Ruppin Academic Center.	B.A. in Accounting and Business Administration, the Academic Program of the College of Management
Occupation over the past five years	2011-now: CEO of Dynamica Communications Shops Ltd.	2021-2022; VP of Customer Service at the Company; 2020-2021: Head of Customer Services at the Business Customers Section; 2014-2020: Gold/VIP area manager at Business Customers Section.	2022 to July 2023 Head of Private Service Array; 2020-2022 Head of Policy, Quality of Service and Training Department at the Private Customers Service Section; 2019-2020 Head of Digital and Written Communications; 2010-2018 Head of Public Inquiries for Cellcom Group.	Company comptroller.
Within the framework of their education and/or occupation from the past 5 years, do they have experience, expertise or skills in the matter of information of cyber security	No	No	No	No

Name of Officer	Itzhak Ravid
ID Number	052761384
Date of Birth	August 24 1954
Start of Service	March 14 2017
Position at the Company	Internal Auditor
Position at a subsidiary, related company or Company interested party	Internal Auditor of Discount Investment Corporation Ltd.; Internal Auditor of Elron Ventures Ltd.
Are they a family member of a senior executive at the Company of other Company interested party	No
Education	B.A. in Accounting and Economics, Tel-Aviv University
Occupation over the past five years	Managing partner in the accounting firm Raveh Ravid & Co.
Within the framework of their education and/or occupation from the past 5 years, do they have experience, expertise or skills in the matter of information of cyber security	No

Cellcom Israel Ltd.
Goodwill Impairment Test

As of December 31, 2023

Convenience translation only.

Greetings,

We were asked by Cellcom Israel Ltd. (hereinafter: "**Cellcom**" and/or "**the Company**" and/or "**the Work Commissioner**") to test and assess whether the Company needs to recognize an impairment loss for the goodwill listed in the Company's balance sheets, which is attributed to its mobile and terrestrial segments (hereinafter: "**Mobile Segment**" and "**Terrestrial Segment**") as of December 31, 2023 (hereinafter: "**the Assessment Date**"), in accordance with International Accounting Standard 36 Impairment of Assets (hereinafter: "**IAS 36**").

The engagement between BDO Ziv Haft Consultation and Management Ltd. (hereinafter: "**BDO**") and the Work Commissioner was approved and signed by Mr. Ronen Shalaz, Company Accountant (hereinafter: "**the Engagement Agreement**"), on January 7, 2024 (hereinafter: "**the Engagement Date**").

Our findings will be used by the Company, its management, and its auditors, for financial reporting purposes within the framework of generally accepted Israeli accounting and financial reporting principles required by law including in accordance with International Accounting Standard 36 Impairment of Assets (IAS 36) This paper is for the exclusive use of the Company, its management and its independent auditors, in accordance with all applicable laws.

In order to prepare this paper, we relied on the accuracy, comprehensiveness and timeliness of the information received from the Company and from various elements connected to the Company's activity. We have no reason to believe that the data at the basis of our work is not reliable, complete or fair, and we did not conduct our own independent examination of this information with the exception of examination of its reasonability. Reliance on this information does not constitute verification or confirmation of its veracity. No due diligence was carried out during the preparation of this opinion and it has no pretense of including all of the information, tests and checks or any other information included in due diligence.

Economic opinions are not a precise science and are supposed to provide a reasonable and fair reflection of a certain situation at a certain time, on the basis of known data, basic assumptions made and forecasts assessed. Changes to key variables and/or information may alter the basis of the base assumptions and accordingly, the conclusions.

Calculations in this paper were performed using an electronic spreadsheet, and therefore rounding errors are possible.

We hereby note that we are not dependent on the Company, and we are not interested parties nor are we expected to become interested parties in any of the Group companies or in their assets in the future. In addition, we have no personal interest in the Company's securities. We are not dependent on the Company as this term is defined in the Securities Law, 1955 and resulting regulations, including the Accountants' Regulations (Conflict of Interest and Harm to Independence as a Result of Other Occupation), 2009, in the auditing standards and rules of professional behavior of the Israeli Institute of Certified Public Accountants, and in accordance with the ruling of the Securities Authority (on the subject of independence), in accordance with Section H(b) of the Securities Law 1968.

We shall also note that no stipulations were made the for the receipt of our fee contingent on the results of this opinion.

Disclosure on the Indemnification of the Appraiser for Their Work

In accordance with the Engagement Agreement, if we are required to pay any sum to any third party pertaining to the performance of the services specified in the Engagement Agreement, via legal proceeding or some other binding proceeding, Cellcom undertakes to indemnify us for any such sum we pay, beyond a sum equal to three times our fee, so long as Cellcom is given the right to defend itself, and all with the exception of cases of negligence or malice on behalf of BDO, in which case no indemnification or compensation shall apply.

Note that only authorized personnel shall have access to this document.

We are aware of the fact and that we agree that this paper will be used in and/or be included in the Company's December 31 2023 reports, including reports included within the framework of shelf prospectuses or shelf offering reports published by the Company, as well as in any immediate report in accordance with the Securities Law, 1968 and its regulations, which according to legal requirements the companies in question will be required to include the economic paper. No other use may be made of this opinion except for that noted above, including publishing it or quoting it in full or in part, and it may not be transferred to any third party without our express advance approval.

Details on the Appraiser and Their Expertise

BDO Consulting and Management Ltd – founded by the partners of the BDO accounting firm. BDO Consulting and Management is part of the international BDO Network, which provides a broad variety of business services needed for national and international businesses in any sector. Our company has extensive experience in the following areas: Business valuation, financial and taxation due diligence, valuation of goodwill and intangible assets, financial analysis, creating business plans, consulting on PFI/PPP project financing, M&A, investment banking and so forth.

The leading team

Mr. Moti Dettelkramer, C.P.A., Head of Corporate Finance

Moti has a B.A. in Economics and Computer Sciences and an MBA from Bar Ilan University. Moti has over 17 years of experience consulting companies and government ministries. In his current role with the consulting company, Moti is a partner, managing dozens of economists and CPAs involved in teams involved in valuation, PPA, business plans, due diligence, impairment assessment, evaluation of financial instruments etc. As part of his work, Moti was involved in a broad variety of valuations, business plans, strategic plans, and due diligence in a variety of areas of activity such as communications, media, technology, traditional industry, food, real estate, medical equipment, and finance. Prior to joining BDO, Moti managed the Economic Department of Tavor Economics and Finance. Previously, Moti was a lecturer at the Technion and at Tel Aviv University, in the Accounting Department, as well as at the Hebrew University in Jerusalem.

Mr. Sagiv Mizrahi, CPA, Partner, Team Leader in the Corporate Finance Department

The work was prepared by a team led by Mr. Sagiv Mizrahi, CPA, partner, and team leader in the Corporate Finance Department. Sagiv has an undergraduate degree in Practical Mathematics from Bar Ilan University, and an MBA (Summa cum Laude), specialized in financial management from Tel Aviv University. Sagiv has over 10 years' experience in economic and business consulting, valuations of companies and financial instruments and diverse economic-accounting work, in conformity with international accounting standards (IFRS) and with US accounting standards (US GAAP). Previously, Sagiv was lecturer on accounting and valuations at Bar Ilan University.

Sources of Information

Our work was detailed on the following data, documents, and presentations:

- The Company's audited Financial Statements for 2021-2022, presented in accordance with the International Financial Reporting Standards (hereinafter "**IFRS**";
- The Company's draft Financial Statements as of December 31, 2023, divided into Mobile Segment and Terrestrial Segment;
- Gain/loss data for 2023 presented according to Management data;
- The Company's 2024 budget at the annual and quarterly level as well as an examination of budget versus implementation for 2024;
- Electronic spreadsheets with other information pertaining to the Company's activity;
- Additional data provided by Company Management;
- Public information;

Summary of Findings

Mobile Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2023, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no impairment provision is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2023
Recoverable Sum	3,418
Carrying Amount	3,063
Need for Impairment	–

Terrestrial Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2023, the value in use of the terrestrial segment cash-generating unit is higher than its carrying amount, and therefore no impairment provision is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2023
Recoverable Sum	2,385
Carrying Amount	1,809
Need for Impairment	–

Respectfully,
Sagiv Mizrahi, C.P.A.
BDO Ziv Haft Consulting and Management Ltd.

Table of Contents

Chapter 1
The Company and its Activity

The Company and its Activity

General

Cellcom Israel Ltd. is a public company incorporated in Israel, the shares and securities of which are listed for trading on the Tel Aviv Securities Exchange. Through May 22, 2022, the shares were also listed for trading on the New York Stock Exchange.

Cellcom is a provider of communications services, primarily offering its customers cellular communications services, land line (landline) telephone services, international telephone services, internet services, transmissions and data communications, television services, sale of terminal equipment and other related services. Company services are divided between the mobile and terrestrial segments as wilk be expanded on below.

As of December 31, 2023, the Company was controlled by Discount Investments Ltd. ("**DIC**"). The indirect holding stake of DIC in the Company's issued share capital is 35.6%, and it has 37.7% of voting rights in the Company.

The remaining holdings in Cellcom are held by various institutional bodies (28. 1%) and by the public (36.3%).

On December 18, 2023, DIC reported that it has contracted with Fortissimo Capital Fund VI, L.P ("**Fortissimo Fund**") an agreement to sell its holdings of Company shares (35.6%) for consideration amounting to NIS 925 million ("**the Transaction**"), reflecting a Company valuation of NIS 2.6 billion. Fortissimo Fund is awaiting the required regulatory approvals for closing the Transaction.

Mobile Segment

Cellcom provides cellular communications services in Israel in accordance with a general license from the Ministry of Communications, which will be in effect through February 1, 2032 (hereinafter: "**the Cellular License**").

Cellular activity

As of December 31, 2023, Cellcom provides cellular service to 3,555 thousand subscribers on multiple networks, mostly with nation-wide coverage, including calling, texting, roaming services in Israel and overseas and data connectivity. Cellcom also provides its customers with other associated services and also offers terminal equipment (mainly mobile phones and other terminal equipment such as tablets), warranty and repair services for terminal equipment.

As of September 30, 2023, Cellcom (along with Golan Telecom) has the largest market share in Israel in cellular services, with a 32.1% market share.[1]

[1]BDO estimate, based on data for telecom providers (Cellcom, Bezeq, Partner and Rami Levi), included on their reports as of September 30, 2023.

The Company and its Activity

Mobile Segment (Continued)

Acquisition of Golan Telecom

On August 26, 2020, the Company closed the acquisition of the entire share capital of Golan Telecom Ltd. ("Golan") for NIS 613 million. Pursuant to the approval of the transaction by the Ministry of Communications, the latter established certain conditions for approval, including turning Golan Telecom into a virtual operator (MVNO) on a temporary basis and demanding that Golan Telecom refund monetary benefits it received in the past, amounting to NIS 75 million. In 2021, Golan paid to the Ministry of Communications these amounts in full, which were provided for on Golan's financial statements prior to consolidation by Cellcom. In October 2021, Golan filed an administrative complaint with the Jerusalem District Court, seeking reversal of the aforementioned decision by the Ministry of Communications dated July 2021, which required Golan to reimburse the State for a monetary bonus previously received by Golan from the Ministry of Communications, amounting to 59 million, and to refund the amount paid by Golan to the State. In May 2023, Golan appealed this matter to the Supreme Court, after a hearing at the Jerusalem District Court, held in April 2023, resulting in agreed dismissal of the administrative motion (with no award of expenses, and with clarification whereby this would be re-submitted to the Supreme Court).

Hosting and sharing agreement with Marathon

In March 2022, the transaction to acquire a controlling stake in Wecom Mobile Ltd. closed (previously: Marathon 018 Xfone Ltd.) ("**Marathon**") by Clear Communications Holdings Limited Partnership, controlled by Yariv Lerner and the Clearmark Fund, in conformity with the creditor agreement, and the revised network sharing agreement between Marathon and the Company became effective. The creditor agreement includes agreements between Cellcom and Marathon to revise the sharing agreement.

In conformity with the original agreement in principle and the four addendums signed thereafter, to revise the terms of the sharing agreement signed by Cellcom and Marathon, in the period from three to five and a half years after the closing date, Cellcom granted to Clearmark a PUT option to sell the share capital of Marathon, or an option for Cellcom to provide an additional loan to Marathon, or provisions with regard to discounts on amounts payable to Cellcom.

Terrestrial Segment

Cellcom provides a variety of services in the Landline segment, including via Cellcom Landline Communications:

- Internet infrastructure and access services;
- Television Services ("**Cellcom TV**");
- International telephone carrier services (hereinafter: “**ITC Services**”;
- Landline telephony services ("**Domestic Landline Operator Services**") for the private and business segments;
- Data transmission and communications services;
- Additional services such as conference call services, information security services, sale of devices and equipment;

Communication services are provided pursuant to a license granted by the Ministry of Communications, or pursuant to registration in a designated registry managed by the Ministry of Communications (other than online TV services, which do not require any license or permit).

The Company and its Activity

Terrestrial Segment (Continued)

Cellcom also provides other services, such as conference calling services, cloud computing services, server hosting services, information security services and IoT solutions. Cellcom also sells terminal equipment in the terrestrial in segment.

As of December 31, 2023, the Company has 350 thousand internet subscribers, of which 260 thousand fiber subscribers and 263 thousand TV subscribers, including TV service only or in conjunction with triple bundles.

Investment in optical fiber infrastructure

In July 2019, the Company completed its investment transaction in the shares of IBC Israel Broadband Company (2013) Ltd. (“IBC”). Pursuant to this, the Company engaged with the Israel Infrastructure Fund (“IIF”) in agreements to establish a limited partnership, jointly owned in equal shares, which will purchase 70% of IBC’s shares (“the IBC Partnership”) as well as in an agreement to purchase such shares with IBC and with other primary shareholders and debtors. In addition, the Company engaged in agreements with IBC to sell its fiber infrastructure in residential areas to IBC and an indefeasible right of use agreement for the IBC fiber network.

In conformity with the Agreement, as revised upon closing of the investment transaction by HOT in IBC in February 2021 (wherein HOT became equal partner in the IBC partnership, which holds 70% of the issued capital of IBC), Cellcom committed to purchase from IBC an indefeasible right of use (IRU) IBC infrastructure lines at 10% of customer homes in buildings connected to IBC optical fiber infrastructure ("Home Pass"), all in line with roll-out of optical fiber infrastructure by IBC in the next 15 years, up to a certain number of customer homes in connected buildings (including an option to extend the use period of these lines for additional terms subject to certain terms and conditions, for no additional consideration other than payment of an annual maintenance fee).

The consideration for the IRU varies by actual roll-out of Home Pass infrastructure by IBC, and should increase quarterly based on the additional infrastructure rolled out in each quarter. The consideration for the IRU is generally payable in 36 quarterly installments (9 years) plus fixed annual interest agreed in advance and plus payment of an annual maintenance fee.

On March 26, 2023, the Company signed another agreement with IBC ("the Agreement") which stipulates, inter alia, that as from July 1, 2023, the Company's undertaking to acquire from IBC an indefeasible right of use (IRU) IBC infrastructure lines would be at 12.5% or more of customer homes in buildings connected to the IBC network (instead of 10% as prior to contracting the Agreement), and would reach 15% (as from July 1, 2024), all with reference to the remainder of the first service period.

Furthermore, given IBC's undertaking to expand its infrastructure roll-out beyond its obligations pursuant to terms of its license, the Company committed to purchase IRU services in infrastructure lines from IBC only, for a set term of 3 years or longer and subject to certain terms and conditions, as set forth in the Agreement.

The parties further agreed that the Company would receive a quarterly discount of varying rate on maintenance fees payable pursuant to its IRU agreement with IBC, from July 1, 2023 through December 31, 2025, in amounts that are not material for the Company.

As of December 31, 2022 and 2023, the cumulative Home Pass quantity achieved by IBC was 1,100,000 and 1,480,000, respectively. IBC intends to further expand its infrastructure roll-out to 2 million households.

The Company and its Activity

Cellcom Energy

On August 31, 2023, the Company signed a founders agreement with Meshek Energy ("**Founders Agreement**") to incorporate a registered limited partnership ("**Cellcom Energy**" or "the **Partnership**"), whose objective is to act in marketing, sale and delivery of electricity to home and business consumers (except for the rural segment and certain operations, as agreed by the parties, where either party may operate independently). To this end, Cellcom Energy would act to obtain a license for electricity delivery with no generation facilities, from the Electricity Authority ("the **License**"). Cellcom Energy and the General Partner of Cellcom Energy would be equally held by the parties (50% each).

In line with the business plan approved by the parties as part of the Founders Agreement ("**Business Plan**"), either party would provide to the Partnership, *pro rata* to their share of the Partnership equity, financing as set forth in the Business Plan (including any budget revisions to be approved during the term of the Business Plan, namely 5 years as from January 1, 2024).

In order to promote operations of Cellcom Energy, the parties agreed that the Company would provide services to the Partnership, primarily with regard to sales and customer management, as part of a service agreement to be signed by the parties, and further agreed that Meshek Energy would sell to Cellcom Energy elevtricity from four facilities of Meshek Energy (and entities affiliated there with), which are solar facilities with integrated storage ("**Electricity Purchase Agreements**").

Concurrently with signing the Founders Agreement, the Company and Meshek Energy contracted, on behalf of Cellcom Energy, with a party in the energy market ("the **Producer**"), 4 agreements to purchase electricity, for a term of 20 years from such date when each generation facility would be attributed to Cellcom Energy, in conformity with each of the aforesaid agreements, from 4 generation facilities to be constructed by Meshek Energy and entities affiliated there with in 2024, with installed solar capacity of 45 MW DC and storage capacity of 100 Mwh for all of the facilities.

Total payments by Cellcom Energy with respect to purchase of electricity from the four generation facilities, for the term of the agreements on aggregate, is expected to be NIS 500 million, partially linked to the Consumer Price Index with an agreed cap, and partially linked to the generation tariff (the weighted generation component tariff, as published by the Electricity Authority "**Weighted Tariff**") ("**Linkage Provisions**"); also specified are minimum and maximum rates, linked to the CPI, payable by Cellcom Energy for electricity transmission from each of these generation facilities. The aforementioned consideration reflects an agreed discount on the Weighted Tariff.

In conformity with the business plan attached to the Founders Agreement, Cellcom Energy strives to achieve a market share of 270 thousand electricity customers through 2028. Note that as of the review date, Cellcom Energy operations are not attributed to any segment, and pursuant to provisions of IAS 36, such operations are not accounted for in calculating the recoverable amount for segments (new operations).

Chapter 2
Market overview

Market overview

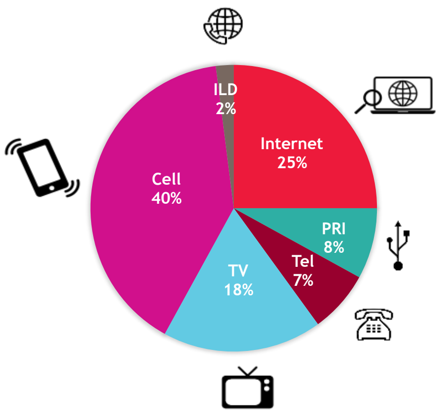
The Communications Industry

The telecom industry worldwide and in particular in Israel, is characterized by rapid development and by frequent technology changes, both in terms of the business structure in the industry and in terms of applicable regulation.

The telecom market, according to the Ministry of Communications, consists of six key segments: cellular, land line telephony, international communications, land line internet, broadcasting, data relay and communications services. As of 2021, some 40% of revenues in this industry are from the cellular segment.

In 2021, revenues in the telecom market increased by 2%, for the first time in three years, from total revenues amounting to NIS 16.57 billion in 2020, to NIS 16.8 billion in 2021.

The following graph shows the breakdown of revenues of the communications market2 between the primary operating segments in 2021:



In 2019-2021, revenues in the telecom market were estimated at NIS 17. 6 billion, NIS 16.57 billion and NIS 16.8 billion, respectively (a decrease of 5.71% and an increase by 1.9% in 2020-2021, respectively). Most of the decrease in 2019-2020 originates from the cellular market which, as set forth below, resulted from a drop in prices which started nearly 10 years ago, since the cellular market reform, which saw the entrance of the two new players at the time, Golan Telecom Ltd. ("**Golan**") and HOT Mobile Ltd. ("**HOT Mobile**"), as well as the following the entrance of Marathon in early 2018.

The increase in revenues in 2021 compared to 2020 is due, inter alia, to the end of the COVID crisis, which affected market revenues, with indicated return to familiar trends prior to this crisis. Revenue analysis at segment level indicates that in 2021, revenues declined in the following operating segments:

- International communications – a decrease of 10.4%, similar to the declining trend in this segment in recent years, primarily due to free international calling solutions.
- Landline telephony – a decrease of 8.7%, due to young couples and many households foregoing a land line phone in their home.
- Broadcasting – a decrease of 1.6%, due to entry of Cellcom and Partner into the TV market and further entry of alternative solutions (Netflix, Disney+, Amazon Prime etc.) and increased competition.

[2]Source: Summary of Telecom Market Revenues in 2021 – Ministry of Communications.

Market overview

The Communications Industry (continued)

Conversely, the two segments with increased revenues in 2021 are the data transmission and communications segment and the cellular segment, with an increase by 8.8% and 6%, respectively. This increase may be attributed, inter alia, to conclusion of the COVID crisis which had a positive effect on these segments, elimination of restrictions on international air travel in the cellular segment, and increased roll-out of independent infrastructure by market competitors in the data transmission and communications segment.

Moreover, in 2022 the telecom market continued its technology acceleration in both the terrestrial and mobile segments, such that current telecom consumers in Israel benefit from a higher quality product than previously.

While in the past, competition in the telecom market focused on competition between independent communications providers in each operating segment separately, in recent years there has been a trend of moving to competition between communications groups operating in parallel in a number of segments of the telecom market, and offering shared package deals, as detailed in the following table and below:

Operating Segment	Partner	Bezeq	Cellcom (Golan Telecom)	HOT	Marathon	Keshet and RGE
Cellular	Partner	פלאפון	Cellcom; Golan telecom	HOT mobile	We com	
Local Telephone Services	Partner	בזק; בזק בינלאומי	013 netvision	HOT		
Internet Services	Partner; 012 mobile by Partner	בזק; פלאפון; בזק בינלאומי	Cellcom; 013 netvision	HOT	018 אקספון	
International Calls	012 mobile by Partner	בזק בינלאומי	013 netvision		018 אקספון	
Television Services	Partner tv	yes.; STING TV by yes.	סלקום TV	HOT; NEXT TV+		free TV

Market overview

The Communications Industry (continued)

The following is a description of the primary players active in the telecom industry in Israel:

Cellcom Group – Cellcom (including through Golan) provides cellular telecom services as well as various services in the terrestrial segment (along with Cellcom Landline Communications Partnership), which include the following: TV services over the internet (Cellcom TV), internet infrastructure services (based on the wholesale land line market and optical fiber infrastructure from IBC, which is 23% indirectly owned thereby), international calling services, land line telephony services, data transmission and communications services, sale of terminal equipment (including through the subsidiary, Dynamica), sale and delivery of electricity (through Cellcom Energy) and other services.

As of September 30, 2023, Cellcom reported 3,523 thousand cellular subscribers, 342 thousand Internet subscribers, 261 thousand TV subscribers and 240 thousand fiber subscribers. Cellcom is the largest cellular provider in Israel.

Partner Group – Partner provides cellular communications services and diverse land line services (jointly with 012 Smile Partnership), including the following: online TV services (Partner TV), Internet infrastructure services, international long-distance calling, wire line telephone services, data relay and communications services, sale of terminal equipment and other services. Partner provides internet infrastructure based on its own optical fiber infrastructure and based on the wholesale market (primarily on Bezeq infrastructure), and as from 2023 also through an IRU agreement signed with Bezeq on December 22, 2022.

Moreover, as from the fourth quarter of 2023, Partner has been offering its customers ISP services over the IBC optical fiber network, as part of the wholesale market.

As of September 30, 2023, Partner reported 2,655 thousand cellular subscribers, 213 thousand TV subscribers, 434 thousand internet subscribers and 353 thousand fiber subscribers.

HOT Group – HOT owns a nationally-deployed cable infrastructure, and provides multi-channel television services, cellular telephone services via HOT Mobile, land line telephony services, internet infrastructure (optical fiber infrastructure from IBC, which is 23% indirectly owned thereby), data transmission and communications through HOT Telecom, as well as ISP services through HOT Net. HOT is a private company fully owned by international communications corporation Altice, owned by Patrick Drahi.

In accordance with Altice's reports as of September 30, 2023, HOT has 1,537 thousand cellular subscribers and 1,028 thousand land line subscribers. Furthermore, HOT cable infrastructure is connected to 2,263 thousand households, or 90% of households in Israel.

Bezeq Group – Bezeq owns nation-wide copper wire infrastructure and fiber infrastructure, as elaborated below. Bezeq provides land line domestic telecom services, mobile telephony services through Pelephone, multi-channel TV services through DBS Satellite Services (1998) Ltd. (hereinafter: "Yes"), infrastructure services through Bezeq, international telecom services and Internet infrastructure services through the wholesale market and Internet access (ISP) services through Bezeq and through Bezeq International. Bezeq also provides maintenance and development of telecom infrastructure, provision of telecom services to other telecom providers, dissemination of public TV and radio broadcasts and the and maintenance of equipment and services.

Market overview

The Communications Industry (continued)

According to Bezeq financial statements as of September 30, 2023, Bezeq had 2,610 thousand cellular subscribers, 1,454 thousand land lines, 1,500 thousand Internet infrastructure subscribers (of which: 471 thousand in the wholesale market and 1,029 thousand direct end customers) and 1,962 thousand households available to be connected to optical fiber (of which 506 thousand subscribers are connected to the optical fiber network).

Data about existing subscribers of telecom companies presented above are as of September 30, 2023, based on available data for all telecom companies for comparison purposes.

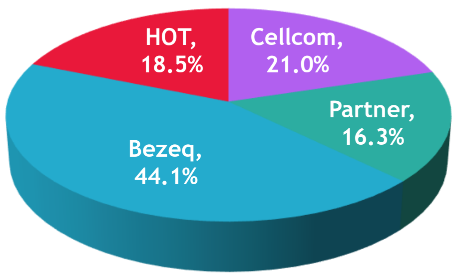
Results of major telecom companies in 2023:

Below are results of major telecom companies in the market for the 9 months ended September 30, 2023 (NIS in millions), as reported on their financial statements **(*)**:

Q_{1-3} 2023 (NIS in millions)	Cellcom	Partner	בזק	HOT
Revenues	3,276	2,541	6,872	2,883
Gross profit	1,024	605	–	–
% gross profits	*31%*	*24%*	-	-
Operating profit	253	223	1,399	168
% operating profit	*8%*	*9%*	*20%*	*6%*
Net profit (loss)	101	138	951	–
% net profit	*3%*	*5%*	*14%*	

(*) Data for HOT is included on Altice financial statements in EUR, converted to NIS at the average exchange rate for the 9 months ended September 30, 2023, according to the Bank of Israel.

Below is composition of revenues of major telecom companies in the telecom market for the 9 months ended September 30, 2023:



Market overview

Inflation and interest rates

In 2022, changes in the global economy due, *inter alia*, to the COVID crisis, affected inflation and interest rates world-wide and in Israel. In 2022, prices increased in many markets and items, with inflation in Israel in 2022 reaching 5.3%, a 20-year high in terms of inflation for a calendar year. By comparison, inflation in 2022 in the USA was at 7%, even reaching, over the summer, a record 9.1% annualized. In 2022, central banks around the world, including the Bank of Israel, started to raise interest rates in order to curb inflation. The Bank of Israel started raising interest rates, from 0.1% in April 2022 to 4.75% in May 2023. In 2023, inflation was more moderate at 3% for the year. In January 2024. the Bank of Israel lowered its interest rate by 0.25%, so that as of the review date, interest is at 4.5%.

Israel–Hamas war

On October 7, 2023, the Government of Israel declared the Israel–Hamas war ("the **War**"), following an attack by terrorist organization Hamas on towns near the Gaza border. An extensive call-up of military reserves took place in order to achieve the War goals. The Government also declared a Special Homeland Situation in Israel, whereby many towns were evacuated, both near the Gaza border and on the Northern border, with actions taken to safeguard public security, including restrictions imposed on places of work and on the educational system.

The War is expected to have material economic implications for the Israeli economy, not all of which are known as of the review date. These may include potential decline in economic activity due to closure of plants, damage to infrastructure, extensive military reserve call-up, evacuation of residents from their homes, restrictions on various activities (such as cable work, offshore gas rigs, the educational system and so forth), transportation and movement etc. This is in addition to volatility in exchange rates and a weaker NIS, price drops on equity and debt markets in the Tel Aviv Stock Exchange, and higher risk of more international rating agencies lowering their ratings for State of Israel debt, in addition to Moody's, which has lowered the rating of Israel debt from A1 to A2 in February 2024. This was the first time the rating for the State of Israel has been lowered since 1998.

To date, implications of the War for the telecom market were mostly reflected in impact on revenues from roaming services, as the War caused a decrease in both incoming and outgoing tourism. As this is an on-going crisis event associated with uncertainty, we are unable, as of the review date, to know what implications it may have for the Israeli economy in general, and for the telecom market in particular.

According to the Bank of Israel forecast issued in January 2024, GDP is expected to grow by 2% in each of 2023-2024 (compared to 3% growth in each year in the previous forecast dated July 2023, prior to outbreak of the War) and by 5% in 2025. Inflation is expected to reach 2.4% in 2024 and 2% in 2025. In the fourth quarter of 2024, interest is expected to be at 3.75%-4.0% (**see below for more information about the Israel–Hamas war and its effects**).

Market overview

COVID

In early 2020 the coronavirus (Covid-19, hereinafter: “**Coronavirus**” and/or “**COVID**” and/or “**the Virus**”), which was declared a global pandemic by the World Health Organization. The Corona Virus pandemic and uncertainty with regard to further spreading of the Virus resulted in an economic crisis reflected, inter alia, in decrease in economic activity, sharp decline in the price of oil, volatility in foreign currency exchange rates and higher unemployment. In 2022, there was significant decline in morbidity and further reduction in impact of the COVID crisis on the economy, with normal economic conditions resumed late in 2022. In 2021, the impact to telecom companies was mostly reflected in revenues from roaming services, with no material impact to other operating segments.

Based on reports by major telecom companies, the effect on revenues from roaming services became more moderate in 2022, as the Israeli economy opened up and eliminated restrictions as from early 2022, with fully open access for incoming and outgoing tourism, such that in late 2022 and in 2023, there were no such effects with regard to roaming services.

Mobile telephony market

The cellular network operates using two primary components – mobile telephone devices and fixed broadcast facilities. Mobile phones, the end device, broadcasts radio waves to the antenna of the broadcast facility and receives radio waves from it. The cellular network divides the country’s area into thousands of geographical units called “cells” (hence, cellular communications), with each cell containing a fixed broadcast facility (broadcast site, antenna). The cells overlap each other slightly, and maintain continuous telecommunications coverage in a structure similar to that of a beehive. If the cells do not overlap then a gap is created in coverage, which means no reception in the “hole” and inability to maintain continuity when a subscriber passes between cells.

The cellular technologies used to date in Israel include “Second Generation”, “Third Generation” (UMTS technology[3] and additional types), “Fourth Generation” (LTE Technology[4]) and "Fifth Generation" (5G).

The Fourth Generation tender took place in 2014-2015, and the Fifth Generation tender took place in August 2020. Licenses in these tenders were awarded to these cellular operators: Hot Mobile, Partner, Cellcom, Pelephone, Golan Telecom and Marathon (hereinafter: "Cellular Operators" and/or "MNO").

After the Cellcom-Golan merger in August 2020 the number of cellular operators dropped to 5 (as detailed above).

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3 Universal Mobile Telecommunications System – an international cellular communications standard, a development of the GSM standard.
4 Long Term Evolution – a standard for high-speed wireless communications of wireless devices such as a mobile phones.

Market overview

Mobile telephony market (continued)

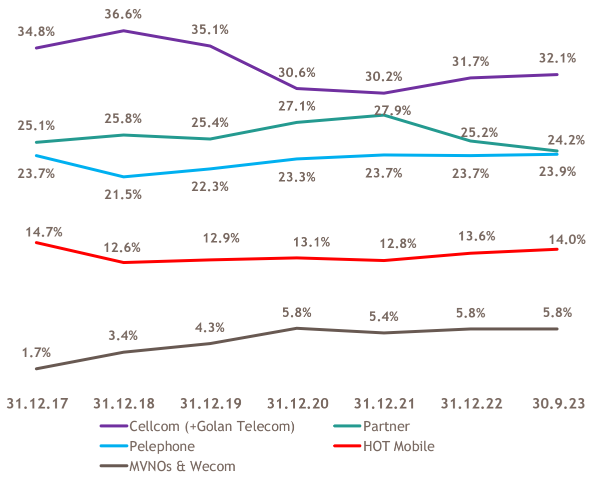
The following is subscriber data for the companies operating in the field of mobile communications in Israel as of December 31, 2017-2022 and as of September 30, 2023 (in thousands)*:

No. of Subscribers (Thousands)	30.9.23	31.12.22	31.12.21	31.12.20	31.12.19	31.12.18	31.12.17
Cellcom (+Golan Telecom)	3,523	3,452	3,275	3,204	3,667	3,757	3,710
Partner	2,655	2,744	3,023	2,840	2,660	2,650	2,674
Pelephone	2,618	2,580	2,576	2,442	2,336	2,205	2,525
HOT Mobile	1,537	1,480	1,392	1,373	1,350	1,296	1,564
MVNOs & We4G	638	629	586	609	448	350	180
Estimated Total Number of Subscribers	**10,971**	**10,885**	**10,852**	**10,468**	**10,461**	**10,258**	**10,653**

*** Notes:**

- Partner, Cellcom, Pelephone, Golan Telecom and HOT Mobile subscriber data was derived from the financial statements of these companies or the statements of their parent companies. We estimated subscriber data for 5MVNO operators and Marathon (Wecom) based on publications in the economic press and other public information, and these exclude subscribers of 019.
- In 2018, Pelephone and HOT wrote-off 588 thousand subscribers, and in 2019, Cellcom wrote-off 153 thousand subscribers.
- In the fourth quarter of 2020, Cellcom wrote-off 427 thousand data subscribers.
- In the fourth quarter of 2022, Partner wrote-off 298 thousand subscribers (189 thousand M2M subscribers, 94 thousand prepaid subscribers and 15 thousand postpaid subscribers).
- For comparison – Cellcom and Golan data was consolidated for the duration of the measurement period.

The following is a description of the development of the market shares of the primary companies active in the industry based on the number of subscribers presented in the above table in 2017-2022 and as of September 30, 2023:



5 Mobile Virtual Network Operator – a virtual cellular operator, who uses existing cellular operator infrastructure with no need for their own infrastructure.

Market overview

Mobile telephony market (continued)

Competition in the cellular market has led to an ongoing drop in prices, increased customer mobility, a drop in telephone minute consumption as well as customer churn. However, in recent years the churn rate improved and portability between cellular operators declined, with evident price increases for 4G and 5G cellular packages.

Collaboration and hosting agreements

The cellular companies operate within the framework of a license issued by the Ministry of Communications. The license given the companies obliges them to provide the service to their subscribers in a proper and organized manner, across the country and at a level of service no lesser than that stated in the service quality indices detailed in their licenses. As a rule, each company is required to have their own independent infrastructure, but collaborations exist between cellular companies at various passive communications sites (meaning sites featuring antennas). These are usually central sites, with a single “mast” serving as the basis for the antennas of various companies as well as collaborations on active infrastructure as detailed below. The Ministry of Communications’ current policy is to encourage various methods of sharing between networks, while making sure to protect competition between companies.

The following are the existing collaboration agreements:

Partner - HOT Mobile: in April 2015 Partner and HOT Mobile announced that the Minister of Communications has approved the network sharing agreement between the companies for the active radio segment for the establishment of a partnership that would hold, develop and operate one advanced cellular network for both companies, each of which would hold one half of the rights to it.

Following the approval in question, Partner and HOT Mobile established a joint corporation (the Phi Company), which received a special license to provide cellular radio infrastructure to a mobile telephone operator. The license will be in effect for 10 years. As part of the joint agreement between Partner and HOT Mobile, HOT Mobile will receive hosting services from Partner.

Cellcom – Marathon (Wecom): In July 2016 the Company engaged with Marathon, which had won 4G frequencies in the 2015 frequencies tender, in a 4th Generation network sharing agreement and 2nd and 3rd Generation network hosting services. The agreement will remain in effect for 10 years, unless extended by the parties. In 2020, a dispute arose between Marathon and Cellcom, with Marathon informing Cellcom of termination of the collaboration agreement and filing a request to sell its cellular operations. In March 2022, a transaction closed whereby Clearmark Fund invested in XFONE, for allocation of 66.67% of Marathon shares. The acquisition transaction closed concurrently with a debt agreement with Marathon creditors, which included signing a revised network sharing agreement between Cellcom and Marathon.

There are also infrastructure hosting agreements between operators without independent infrastructure and operators with independent infrastructure (hereinafter: “**Hosting Services**"): Rami Levi receives hosting services from Pelephone and 019 Telzar receives hosting services from Pelephone and Partner.

Market overview

Mobile telephony market (continued)

Mobile Telephones – Market Price Trends

The cellular market reform has led to a drop in prices and the low rates have compelled the companies to undergo significant streamlining. Israeli consumers have internalized number mobility. Our analysis indicates that as of the end of 2022, ARPU in Israel was at NIS 52, up by 4% compared to 2021, when it was at NIS 50, and in the first nine months of 2023, ARPU in Israel was at NIS 53, up by 2% compared to 2022. Analysis of ARPU in 2010-2022 shows a 62% decrease in ARPU. In 2010-2015, ARPU declined by an average 14% per year, but as from 2016, the downward trend was more moderate, at only 2.8% per year on average.

Below is ARPU data for major companies in the mobile telephony market in Israel in 2010-2022 and in the 9 months ended September 30, 2023, as presented on their financial statements (in NIS per month, rounded):

ARPU	Q1-3 2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cellcom (+Golan Telecom) (*)	49	49	48	47	51	51	57	63	65	72	79	88	106	144
% Change	*0%*	*1%*	*2%*	*-7%*	*-1%*	*-10%*	*-9%*	*-3%*	*-10%*	*-9%*	*-10%*	*-17%*	*-26%*	*0%*
Partner (**)	55	54	48	51	57	58	62	65	69	75	83	97	111	148
% Change	*2%*	*13%*	*-6%*	*-11%*	*-2%*	*-6%*	*-5%*	*-6%*	*-8%*	*-10%*	*-14%*	*-13%*	*-25%*	*-2%*
Pelephone	57	57	55	56	63	62	61	63	64	78	86	95	106	135
% Change	*0%*	*4%*	*-2%*	*-11%*	*2%*	*2%*	*-3%*	*-2%*	*-18%*	*-9%*	*-9%*	*-10%*	*-21%*	*2%*
HOT Mobile (***)	–	–	–	–	–	55	52	50	54	69	82	99	–	–
% Change	-	-	-	-	-	*6%*	*4%*	*-7%*	*-22%*	*-16%*	*-17%*	-	-	-
Weighted ARPU (****)	**53**	**53**	**50**	**51**	**56**	**56**	**59**	**62**	**64**	**74**	**82**	**94**	**103**	**136**

(*) As from 2020, data includes Golan Telecom.

(**) The increase in ARPU is primarily due to subscriber write-off in the fourth quarter of 2022, following a change in subscriber counting methodology, which resulted in elimination of 189 thousand postpaid subscribers and 94 thousand prepaid subscribers.

(***) As from the third quarter of 2018, Hot is not a reporting entity and does not make its data public.

(****) A weighted average in accordance with the market share of each of the leading players in the market in that period. Furthermore, the aforementioned ARPU includes a connectivity fee.

According to the financial statements of these companies, the ARPU was calculated by dividing the monthly average of the total revenues from the cellular services, including revenues received from cellular operators making use of the network of the relevant company, by the lineup of active subscribers at the end of the period.

Market overview

Mobile telephony market (continued)

According to the table and further to the foregoing, the weighted ARPU for leading companies in the mobile telephony market was gradually eroded in recent years, with a sharp decrease in 2011 due to the reduction in connectivity fees (see below) and the start of intense competition in this market. The total decline in ARPU from 2010 to 2022 amounted to NIS 84, or 62% on aggregate, decreasing at an average annual rate (CAGR) of 7.7%.

The relatively moderate drop in ARPU in 2018 and 2019 largely derives from the subscriber write-offs carried out by Pelephone and HOT, which increased the ARPU they displayed. Furthermore, 2020-2021 saw an additional trend of an additional decline in weighted ARPU, primarily due to the negative impact of the COVID crisis on revenues from roaming service sand the continued price erosion of cellular services as a result of the ongoing competition in the market.

As evident in 2022, ARPU increased due, *inter alia*, to end of the COVID crisis and the recovery of revenues from roaming services, and an increase in prices in the cellular market that began in the second half of 2022, and accelerated sales of 5G cellular packages which generate higher revenues. In the first three quarters of 2023, ARPU was slightly higher, increasing from NIS 52 to NIS 53.

Connectivity fees in the telecom market

In June 2022, the Minister of Communications signed an outline for reducing connectivity rates gradually over 3 years, until being completely phased out. Prior to said date, connectivity fee for cellular calls were at 6 agorot per minute and for land line calls at 1 agorot per minute.

Below is the connectivity fee in agorot per minute in 2023-2025 (until eliminated in June 2025), for cellular and line telephony:

Date change (agorot per minute)	Cellular	line
May 2023	6.0	1.0
June 2023	4.8	0.8
June 2024	2.0	0.4
June 2025	0.0	0.0

Note that the decrease in revenues from connectivity fees should result, in lower ARPU for telecom companies, along with similar decline in cost of sales

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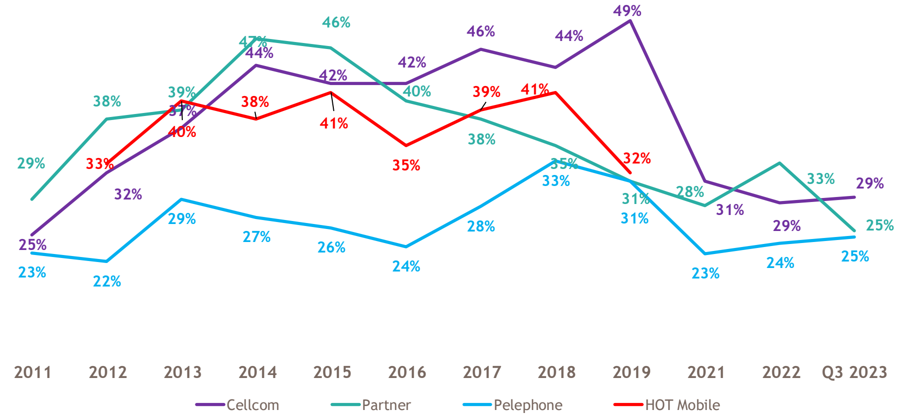
Market overview

Mobile telephony market (continued)

Churn rates

Alongside the drop in ARPU, following the increase in competition in recent years, companies in the industry saw significantly higher churn rates. However, as from 2019, a decrease is evident in churn rates, and as of 2023, market competition is not as aggressive as it was, which has a positive impact on churn rates, too.

The following graph shows the development of abandonment rates in leading companies in the industry in 2011-2022 and for the 9 months ended September 30, 2023, as presented on their financial statements (*):



(*) Churn rate data for Partner, Cellcom and Pelephone for 2023 is based on the first nine months of 2023, annualized.

(**) As from the third quarter of 2018, Hot is not a reporting entity and does not make its data public. Therefore, data for Hot for 2018 is based on the second quarter of 2018, annualized. Data for Hot for 2019-2020 is based on publications in the economic press.

The need for innovation – Fifth Generation

Technology used to transmit cellular data undergoes constant improvement. Experience from the past 30 years shows that on average, every 7 years a new generation is developed, which upgrades the information data transfer capacity over the cellular medium. The new technology's development process will take a number of years.

Fifth Generation technology is expected to increase bandwidth by a factor or 10 or more relative to Fourth Generation networks. But beyond that, 5G is expected to lead to a significant increase in response time (latency). The improved response time is of critical importance, primarily for M2M applications for rapid machine to machine communications. 5G provides potential for a revolution in apps and services.

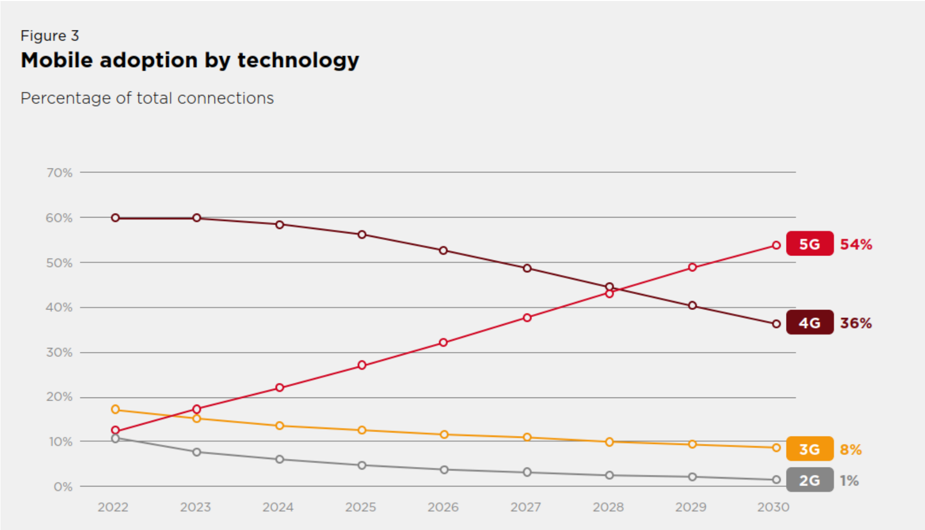
Market overview

Mobile telephony market (continued)

The need for innovation – Fifth Generation (continued)

The annual mobility report by Ericsson shows that as of the second quarter of 2023, there were 1.3 billion 5G subscribers world-wide which had a 5G-compatible device, and this is expected to reach 1.6 billion by end of 2023. The report further states that based on forecasts, by end of 2029 some 90% of the world population would adopt 5G[6].

The chart below shows the forecast global use of different generations (2G-5G) in 2022-2030, as of 2023[7]:



According to this forecast, 4G will dominate the global market in terms of deployment and use for at least the next 5 years. According to this forecast, in 2030 4G and 5G would account for 36% and 54%, respectively, of all cellular data technology.

Moreover, the increased use of 5G should increase ARPU for telecom companies, as 5G packages command a higher price than 4G packages.

[6] https://www.ericsson.com/en/news/2023/12/ericsson-in-review-2023---july-to-december
[7] The Mobile Economy 2023 Report, GSM Association

Market overview

eSIM technology

An eSIM (or Embedded SIM) is a universal smart SIM card, embedded in the cellular device (typically, in addition to an ordinary SIM card), allowing it to connect to the cellular provider without inserting a physical SIM card, and allowing the subscriber to purchase packages for calls and/or data by using an app.

Recently, this technology has started penetrating key global markets, with more and more cellular providers supporting it and allowing customers to use an eSIM.

An eSIM allows you to simultaneously upload multiple profiles from different telecom providers, whereas a regular SIM card is limited to a single telecom provider only. Moreover, this technology does not require a physical SIM card, but rather an upload from an app. In order to activate an eSIM, the cellular provider must support this technology, and an advanced smartphone supporting it is also required.

The technology allows you to also use services, such as Airalo and Knowroaming, whereby you can purchase cellular data packages for various world countries and to virtually install these on your device, such that when you reach your destination, the phone would connect to the local telecom provider.

In 2022, Apple sold the iPhone 14 in the USA with no SIM drawer, so that its devices (only in the USA) entirely rely on eSIM. Note that elsewhere around the world, iPhone 14s and the recent iPhone 15s are still sold with a SIM drawer, but presumably in the near future, Apple will sell iPhones with no SIM drawer. This is a significant statement from a market leader, indicating that this technology is about to enter cellular markets world-wide, and therefore any cellular providers yet to adopt it need to prepare for this eventuality.

Currently, there is ever-growing penetration of advanced smartphones that incorporate eSIM technology. This trend should increase later on, so that in a few years' time, most of the devices on the market then would support this technology. One may also assume that in the near- to mid-future, some smartphones sold in Israel may not even have a physical SIM drawer.

Note that there are still some disadvantages to using a global eSIM solution overseas, compared to purchasing an overseas package from your Israeli provider, such as keeping your local phone number, network quality, issues and problems with reception, customer service and so forth.

One may estimate that entry of this technology would increase overall competition for overseas cellular packages, by opening new alternatives for users (beyond those currently on the market), which may impact revenues from roaming services at telecom companies.

Following the demand from Ministry of Communications, requiring cellular providers to allow for using the eSIM service, in February 2024 cellular providers Cellcom, Partner, Pelephone and HOT Mobile announced they would launch the service and allow customers to use it.

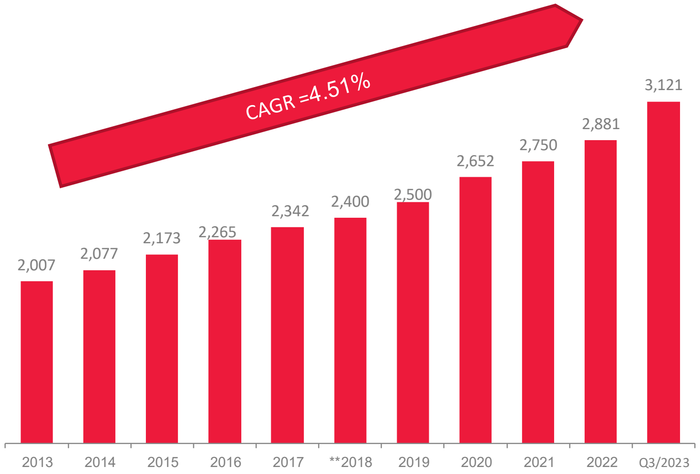
Market overview

The internet market

There are five infrastructure providers in Israel: Bezeq, HOT, Partner, Cellcom and IBC. The Israeli internet connectivity market includes dozens of companies, but the vast majority of them have no significant market share and the market is controlled by Bezeq International (Bezeq), 012 Smile (Partner), 013 Netvision (Cellcom) and HOT.

In June 2022, the reform eliminating separation of infrastructure and ISP services for individual customers became effective. This Reform creates mechanisms that will ensure that even small and new players will be able to effectively, equally and competitively operate with respect to infrastructure owners in the framework of the wholesale market.

Below is the development in number of internet infrastructure subscribers in Israel in 2013-2022 and as of end of the third quarter of 2023 (in thousands)[8] **(*)**:



(*) Total infrastructure subscribers in Israel includes subscribers of Bezeq (copper wire and fiber), Hot (cable), Cellcom (fiber through IBC) and Partner (fiber). As from the third quarter of 2018, Hot is not a reporting entity and does not make its data public, therefore the number of Hot subscribers is estimated.

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[8]Source: Financial statements of infrastructure owners, including Cellcom and Partner for their fiber subscribers.

Market overview

The internet market (continued)

As is evident, from 2012 through the third quarter of 2023, the CAGR for number of infrastructure subscribers in Israel was 4.51%.

The internet infrastructure penetration rate in Israeli households is among the highest in western countries. However, Israel is trailing behind western countries in terms of bandwidth and the move to optical fiber.

According to Bezeq's financial statements for 2022, Bezeq estimates its market share in internet infrastructure in 2022 at 55%, compared with 57% in 2021 and to 61% at end of 2020. One may say that Bezeq's market share in Internet infrastructure is declining, due to growing competition from Cellcom, HOT, Partner and IBC, who provide Internet infrastructure over optical fiber.

Wholesale Market Reform

In November 2014 the Minister of Communications published a resolution according to which, among other things, the obligation to lease the infrastructure of Bezeq and HOT, in stages, to the access providers, was anchored in defined rates.

On February 20 2020, the Ministry of Communications ruled on an update to Wholesale Market rates. The ruling retroactively set the final rates for 2019 and 2020 and set the rate update mechanism for 2021-2022.

Moreover, in December 2022, Bezeq and Partner signed an agreement, whereby Bezeq would reduce the price paid by Partner for using Bezeq optical fibers on the wholesale market, from NIS 85.2 to NIS 72.

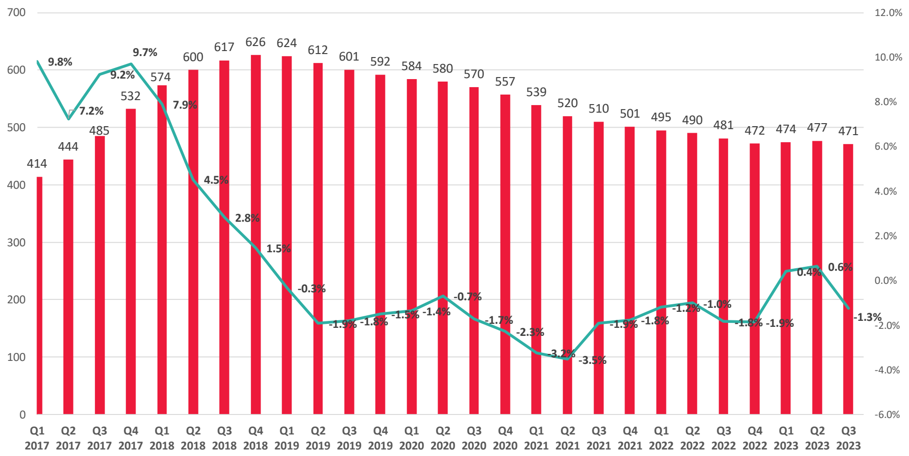
In January 2023, Bezeq agreed to make this agreement similarly available to all telecom companies; thus, as of the review date, the price for using Bezeq optical fiber is NIS 72, similar to its agreement with Partner.

In the first quarter of 2024, the Ministry of Communications is expected to significantly revise downwards tariffs in the wholesale market for passive infrastructure.

Market overview

The internet market (continued)

The following graph shows the development of the number of wholesale internet lines in Bezeq infrastructure from the start of the reform (in millions) on a quarterly basis[9]:



Evidently, as of September 30, 2023, the number of wholesale internet lines was 471 thousand.

From the outset of the reform through 2018, the number of wholesale Internet connections increased. As from the first quarter of 2019, the number of subscribers decreased for the first time. This trend reversal was primarily due to Partner and Cellcom starting to sell optical fiber infrastructure, other than on Bezeq infrastructure. From this point onwards, the number of wholesale connections declines as fiber deployment by Partner and IBC grows.

As from 2021, Bezeq has been rolling out its own optical fiber infrastructure, thus halting the downward trend as from 2022.

Optical fiber

Unlike the more common copper wire technology, optical fiber technology allows extremely large bandwidth for transfer of large data volumes. Fiber infrastructure also allows for internet access at symmetrical speeds, i.e. data download rate identical to the data upload rate. Additional advantages of the use of fibers are lower weight, immunity to outside disturbances, and resistance to water and dampness. Expanding internet speeds beyond symmetrical access will upgrade users' internet experience, improves the quality of content viewing and allows the infrastructure to deal with increased future network traffic capacity demands.

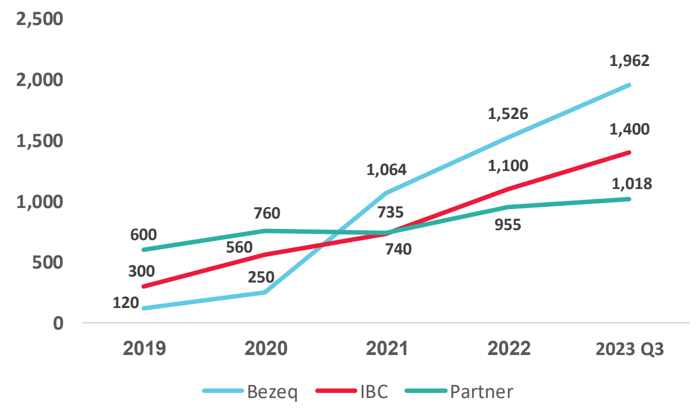
Currently, based on the fiber outline and on the IBC-HOT transaction, there are three fiber networks being rolled out in Israel: from Partner, Bezeq and IBC.

[9] Bezeq financial statements as of September 30, 2023.

Market overview

The internet market (continued)

The chart below shows the fiber roll-out by these companies in 2019-2022 and as of September 30, 2023 (households in thousands):



Partner

By end of 2022, Partner reached 1 million households and 283 thousand subscribers on independent infrastructure, thus indicating completion of the main roll-out stage and a slowing down of the roll-out pace. Partner selects its roll-out areas in a focused manner at its sole discretion in accordance with economic feasibility and is not committed to deployment percentages, other than with respect to its tender obligations for areas of demand. In December 2022, an agreement was signed whereby Partner would acquire the right to use 120 thousand optical fibers from Bezeq for 15 years ("IRU Agreement"), at a cost of NIS 574 million plus annual maintenance fee. As from the fourth quarter of 2023, Partner has been offering its customers ISP services also over the IBC optical fiber network, as part of the wholesale market.

IBC

In August 2013 the State granted IBC a general license to provide communications infrastructure services based on opticak fiber. IBC is rolling out fast Internet infrastructure over optical fibers, which are also deployed over the Israel Electric Company's network under the Unlimited brand. IBC was compelled, by its licensed, to implement gradual universal deployment over a course of 20 years. In November 2018, the Ministry of Communications approved relief in the deployment of IBC's fiber optic network, compelling it to achieve 40% deployment only, unlike the original demand for 100% deployment. For more information about IBC see chapter "Description of the Company and its operations".

Note that according to Company management, in the coming years – due to completion of the planned IBC roll-out – the Company should start to benefit from repayment of the owner's loan it has extended to IBC.

Bezeq

Bezeq has been rolling-out fiber to households since 2013, reaching 60% of households, but has halted their actual connection to buildings in light of the economic infeasibility of national roll-out. In 2020, a significant development occurred when the Ministry of Communications resolved the issue through the "optical fiber outline" approved in late 2020. As part of the reform, which entered into effect on January 1, 2021, Bezeq's nationwide deployment obligation was removed and it was required to notify where it wishes to deploy within 5 months, and complete the deployment within 6 years. As evident, since 2021 Bezeq has significantly increased the roll-out scope, reaching nearly 2 million households as of September 30, 2023.

Market overview

International call market

International call services include, among other things, direct dialing services from Israel abroad and from outside the country to Israel, dialing lines abroad, routing and transferring international calls between foreign telecom providers, call cards and more.

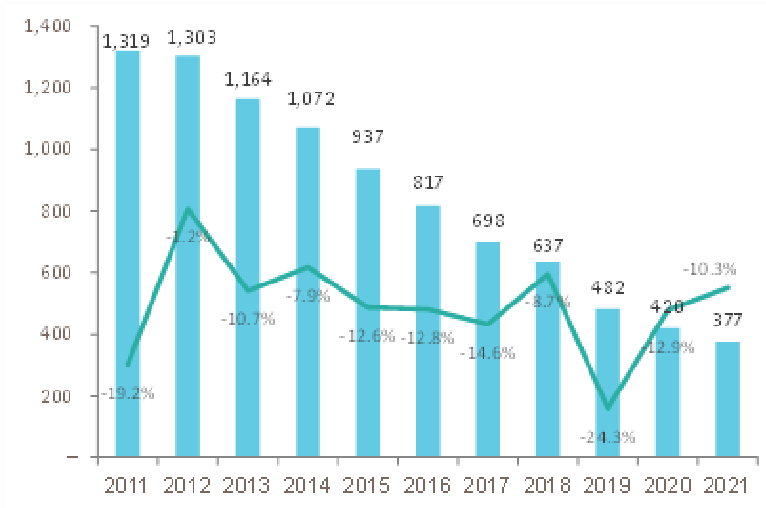
As of today, there are 7 communications companies active in the Israeli market that provide international telephone services – 014 Bezeq International, Cellcom Communications (013), 012 Smile (operating under Partner), HOT Mobile International Communications Ltd. (017), Marathon 018, Telzar 019 and Rami Levi (015). In order to operate in the international calls market, the company/operator needs to receive an International Carrier license in accordance with the Communications Law and make investments in infrastructure (the scope of investments in this market is lower than the scope of investments needed in the domestic operator or cellular markets).

The international calling market in Israel has been characterized in recent years by a drop in call minutes (incoming and outgoing), mainly due to the service packages offered by the cellular companies, which include international call minutes and in addition, the increasing use of free apps allowing international calling at no charge, primarily using apps such as WhatsApp.

The market is competitive, sensitive to prices from the consumer's point of view, and is characterized by multiple special offers made by various operators. The price margin that existed in the past between calls abroad using a mobile versus land line phone has decreased due to the drop in cellular air time prices.

In addition, the cellular companies also include unlimited overseas call packages in their packages, in these packages the customers do not make their calls through the land line operator but rather use the package of minutes offered them as part of their cellular package.

The graph below presents the total revenues from the international calls activity in the communications market in Israel and the annual change that took place between 2011-2021 (thousands of NIS):



Revenues from international calling in the communications market have been dropping over the past decade: from 2011 to 2021, revenues declined by 71% on aggregate. In 2021, revenues from the international communications segment decreased by 10%, following a decrease of 13% and 24% in 2020 and 2019, respectively.

Market overview

TV market

After years of stagnation, in which the Israeli television market was under the near-absolute control of HOT and Yes, it has been exposed to competition, through the entry of Cellcom and Partner to this field of activity. Telecom market revenues from TV services decreased from NIS 3.7 billion in 2015 to NIS 2.95 billion in 2021, primarily due to stronger competition in the field of TV broadcasting and changes to viewing habits among younger households.

The following are details of the primary competitors in the Israeli television content market:

- **yes** – this is the brand of DBS Satellite Services (1998) Ltd., a Bezeq Group company, which holds a license from the Ministry of Communications for satellite TV broadcasting. Since 2019, Yes has been gradually transitioning to providing its services through Yes+ and Sting TV.
- **HOT** – is a brand of HOT Communication Systems Ltd. HOT also operates its low-cost service, next TV, which is disseminated online.
- **Cellcom TV** – Cellcom's service is based on Internet Based Streaming Service, or "Over the Top" (OTT) and includes linear channels and VOD content based on the public Internet.
- **Partner TV** – Partner's television services are provided through a converter with the Android TV operating system installed, with the channels and content broadcast over the internet. An open operation system that allows, among other things, the installation of other viewing applications.
- **FreeTV** – an OTT TV service in Israel, from Keshet Broadcasting and RGE, commercially launched in May 2023.
- **Idan Plus** – Idan Plus is operated by the Second Authority for Television and Radio, and is used to distribute certain channels to the public free of charge (DTT), with the exception of the one-time cost of the converter.

Streaming services / smart Tvs / other digital set-top boxes etc. – these are internet-based VOD services. In 2016, Netflix, which provides web-based VOD services, began operating in Israel. In mid-2017 Netflix launched full translation of its contents, Hebrew user interface as well as Israeli contents. In 2022, Disney+ started operations in Israel. Other significant streaming services were launched around the world, such as Amazon Prime, HBO Max, Apple TV and others. In 2024, HBO Max should enter the Israeli market, combined with the Discovery+ service.[10] In September 2022, Yes announced a collaboration with the Discovery+ streaming service, such that this new service would not be available at first to the public using any other apps, but rather exclusively to Yes and Sting TV subscribers.

[10] https://www.calcalist.co.il/local_news/article/rjvkbce11i

Market overview

TV market (continued)

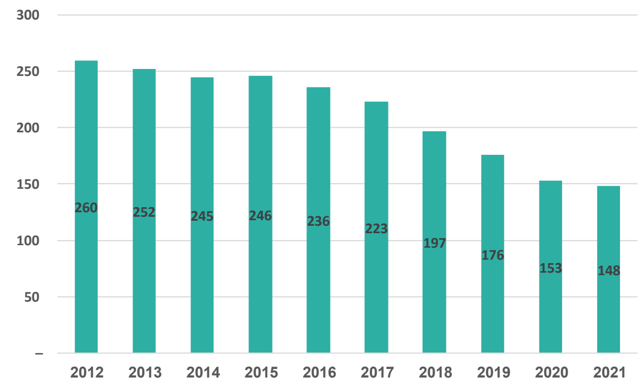
FreeTV

FreeTV is an OTT TV service in Israel, from Keshet Broadcasting and RGE, commercially launched in May 2023. In June 2022, the service was approved by the Second TV and Radio Authority, subject to several reservations. This was after the service was approved by the Competition Authority through September 2025. In the approval, the service was required to provide the broadcast channels Kan 11, Keshet 12 (owned by Keshet Broadcasting, an owner of this venture), Reshet 13, Now 14 and Channel 9. FreeTV is an alternative for online TV services.

During the launch phase, the service was priced lower than other services, even promising a fixed price "for life", but the service still has limited new foreign and sports content (such as Charlton), being significantly based on past broadcasting from the partners in this venture, Keshet Broadcasting and Channel 5. FreeTV is a private company, hence there is no data available about its operations.

According to data for telecom market revenues in 2021, total revenues in the multi-channel TV segment decreased by 1.6% in 2021. The data shows a continued downward trend in ARPU, primarily due to stronger competition due to increased new player activity, offering limited TV services at lower prices than traditional packages from HOT and Yes. The entry of these new competitors was made possible primarily by the wholesale market reform and evolution of IPTV technology for transmission of broadcasts over the internet (OTTO). The increased competition and technological developments have resulted, inter alia, in growth of IPTV broadcasting services among all telecom companies.

The chart below shows ARPU per multi-channel TV subscriber in 2012-2021 (current prices, inclusive of VAT):



Source: Summary of Telecom Market Revenues in 2021 – Ministry of Communications, Economics Division.

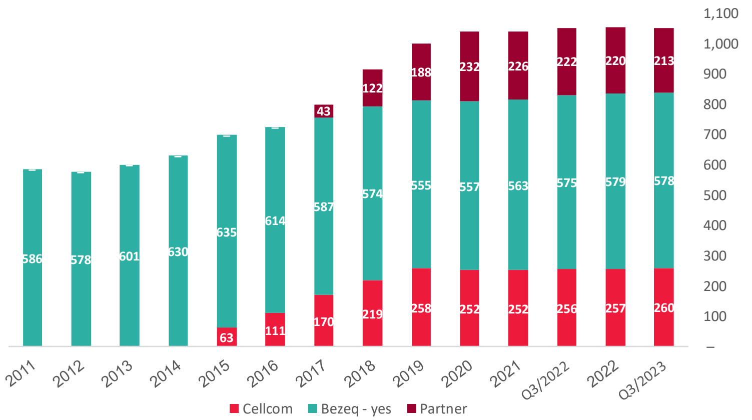
The report further indicates that the churn rate of all players is 25% between 2020-2021.

Below is the composition of the TV market in Israel (number of subscribers) from 2011 through the third quarter of 2023, based on public information (in thousands) (*):

Market overview

TV market (continued)

Below is the composition of the TV market in Israel (number of subscribers) from 2011 through the third quarter of 2023, based on public information (in thousands) (*):



(*) The data above excludes Hot subscribers, since as from the third quarter of 2018 (when Hot had 750 thousand subscribers), Hot is not a reporting entity and does not make its data public. Furthermore, the above data excludes households not connected to multi-channel TV which are connected to other alternatives to multi-channel TV (such as: Netflix, Apple TV, Idan+ and so forth).

Chapter 3
Results of Business Activity

Results of Business Activity

Balance Sheet

The following are the Company's balance sheets for December 31 2021-2023:

Millions of NIS	Note	31.12.2021	31.12.2022	31.12.2023
Current Assets				
Cash and cash equivalents		644	773	473
Current investments, including derivatives		23	143	24
Customers		927	869	914
Current tax assets		12	9	9
Receivables and debit balances		106	101	101
Inventory		88	117	114
Total current assets		**1,800**	**2,012**	**1,635**
Non-Current Assets				
Trade and other receivables	1	490	551	553
Fixed assets, net		1,383	1,480	1,535
Intangible assets and others, net		2,129	2,154	2,145
Investments in investees accounted for using the book value method	2	134	131	129
Right of use assets		629	665	618
Deferred tax asset		5	5	5
Total non-current assets		**4,770**	**4,986**	**4,985**
Total assets		**6,570**	**6,998**	**6,620**

Millions of NIS	Note	31.12.2021	31.12.2022	31.12.2023
Current Liabilities				
Current maturities of debentures and of loans from financial institutions		383	587	596
Current maturities of liabilities due to lease		184	185	185
Suppliers and expenses payable		737	791	811
Current tax liabilities		7	4	1
Provisions	3	109	83	95
Payables and credit balances, including derivatives	4	290	274	293
Total current liabilities		**1,710**	**1,924**	**1,981**
Non-Current Liabilities				
Debentures		2,373	2,317	1,739
Long-term liabilities due to leases		478	521	470
Provisions		29	24	24
Long-term payables	3	1	32	17
Severance pay liability, net		13	10	14
Deferred tax liabilities		45	66	112
Total non-current liabilities		**2,939**	**2,970**	**2,376**
Total liabilities		**4,649**	**4,894**	**4,357**
Equity		**1,921**	**2,104**	**2,263**
Total liabilities and equity		**6,570**	**6,998**	**6,620**

Source: Cellcom's Financial Statements for 2021-2023.

Results of Business Activity

Balance Sheet (Continued)

Note 1 - Trade and Other Long-Term Receivables

The following is the composition of the Long-Term Trade and Other Receivables item for December 31, 2021-2023 (millions of NIS):

Millions of NIS	31.12.2021	31.12.2022	31.12.2023
Trade receivables	159	184	170
Usage rights to lined of communication	327	340	353
Deposits and receivables	2	1	2
Other	3	2	–
Loan to Marton	–	21	23
Advance expenses	–	–	1
Lease asset	–	3	4
Total balance of Trade and Other Long-Term Receivables	**491**	**551**	**553**

(*) Less provision for doubtful debts.

(**) The Company purchases usage rights to communications lines for their own use and to sell to third parties.

Note 2 – Investments in Investees handled Using the Carrying Amount Method

This section is for the Company's investment in IBC, which is treated as an investment in an associated company.

Note 3 - Provisions

The provision items largely consist of:

- **A.** Provisions due to lawsuits;
- **B.** Site disassembly and restoration provisions – specific costs for removing assets and restoring the sites where the assets were located. These disassembly provisions are calculated based on the disassembly value in the current year considering Management's estimates regarding possible price changes, inflation and so on and capitalized by risk-free interest; and -
- **C.** Provisions due to contractual liabilities and other exposures.

Note 4 - Payables and Credit Balances, Including Derivatives

The following is the composition of the Payables and Credit Balances item, including derivatives for December 31, 2021-2023 (millions of NIS):

Millions of NIS	31.12.2021	31.12.2022	31.12.2023
Employees and associated obligations	114	119	117
Government institutions	33	43	44
Interest payable	55	58	51
Expenses payable	41	10	26
Unearned revenues	43	44	48
Derivative financial instruments	4	–	7
Total balance of short-term payables and credit balances	**290**	**274**	**293**

The following is the economic balance sheet as of December 31, 2021-2023 (millions of NIS) in accordance with the analysis we conducted:

Millions of NIS	31.12.2021	31.12.2022	31.12.2023
Working capital	253	171	163
Net Debt	(2,814)	(2,712)	(2,518)
Other operating assets	4,498	4,686	4,710
Deferred taxes	(17)	(41)	(92)
Equity	**1,921**	**2,104**	**2,263**

The following are the working capital items as of December 31, 2021-2023 (millions of NIS) in accordance with the analysis we conducted:

Millions of NIS	31.12.2021	31.12.2022	31.12.2023
Customers	1,042	1,006	1,030
Suppliers	(384)	(495)	(494)
Inventory	87	117	114
Other working capital balances	(493)	(457)	(487)
Total working capital balance	**253**	**171**	**163**

Results of Business Activity

Profit and Loss

The following are the Company's Statements of Operations for 2021-2023 (millions of NIS):

Millions of NIS	2021	2022	2023
Revenues from sales and services	4,100	4,300	4,398
Change %	*11.5%*	*4.9%*	*2.3%*
Cost of sales and services	(2,963)	(3,034)	(3,059)
Gross Profit	**1,137**	**1,266**	**1,339**
gross profits %	*27.7%*	*29.4%*	*30.4%*
Sales and marketing expenses	(666)	(650)	(695)
of total revenues %	*16.2%*	*15.1%*	*15.8%*
Administrative and general expenses	(301)	(300)	(309)
of total revenues %	*7.3%*	*7.0%*	*7.0%*
Credit Profit (loss)	(5)	(2)	2
Other revenues (expenses), net	44	44	(4)
Operating Profit	**209**	**358**	**333**
operating profit %	*5.1%*	*8.3%*	*7.6%*
Financing expenses, net	(164)	(155)	(140)
Share of losses of associates	(5)	(1)	(3)
Profit before taxes on income	**40**	**202**	**190**
profit before taxes %	*1.0%*	*4.7%*	*7.6%*
Taxes on income	(12)	(45)	(56)
Net profit	**28**	**157**	**134**
Net profit %	*0.7%*	*3.7%*	*3.0%*

Source: Cellcom's Financial Statements

Results of Business Activity

Segment Balance Sheet

The following is the Company's concise draft balance sheet for December 31, 2023, presenting the Company's assets and liabilities attributed to the mobile and terrestrial segments (millions of NIS):

Millions of NIS	Total	Terrestrial	Mobile	Net Debt and Surplus Assets
Total current assets	**1,635**	**366**	**760**	**509**
Total non-current assets	**4,985**	**1,844**	**2,980**	**161**
Total assets	**6,620**	**2,211**	**3,739**	**670**

Millions of NIS	Total	Terrestrial	Mobile	Net Debt and Surplus Assets
Total current liabilities	**1,981**	**396**	**650**	**935**
Total non-current liabilities	**2,376**	**6**	**25**	**2,345**
Equity	**2,263**	**1,809**	**3,063**	**(2,610)**
Total liabilities and equity	**6,620**	**2,211**	**3,739**	**670**

Source: Company Management

Chapter 4
Methodology

Methodology

Background and Definitions

International Accounting Standard 361 (Revised) (hereinafter: "**the Standard**" or "**IAS 36**") seeks to ensure that an entity's assets are not presented at a sum exceeding their recoverable sum. An asset is presented at a sum higher than its recoverable sum when the asset's carrying amount exceeds the sum received from the use or sale of the asset. In this case the asset has an impairment and IAS 36 requires that the entity recognize an impairment loss.

The Standard applies to all assets (besides exceptions denoted in the Standard itself) including goodwill acquired in a business combination. Goodwill acquired in a business combination represents payment made by the buyer based on expectations of future economic benefits from assets that cannot be identified separately and recognized separately.

Definitions

Carrying amount is defined as the sum the asset is recognized at after deducting all accrued depreciation (accrued amortization), and less accrued impairment losses.

A cash-generating unit is the smallest identified group of assets that generates positive cash flows, which are largely independent of positive cash flows from other assets or from other groups of assets.

Fair value is the price that would have been received from the sale of an asset or the sum that would be paid for the transfer of a liability, in an orderly transaction between market participants in the date of measurement.

Costs of disposal are incremental costs, directly attributed to the realization of an asset or cash-generating unit, with the exception of financing costs and tax expenses on income.

Value in use is the present value of the future cash flows expected to be derived from an asset or from a cash-generating unit.

The recoverable amount of an asset or cash-generating unit is its fair value less sales costs or its value in use, whichever is higher.

Identification of Asset the Value of Which May be Impaired

Timing of Impairment Test

On each balance sheet date, an entity shall study whether signs exist indicating the impairment of an asset. If any indications exist, the entity must estimate the asset's recoverable sum. Regardless of whether there are any indications of impairment, the entity must also:

- Test the impairment of an intangible asset with an undefined life span or an intangible asset not yet available for use annually by comparing its value to its recoverable sum.
- Test the impairment of goodwill acquired in business combinations annually.

Signs Indicating Impairment

As noted, the entity shall test the indications of impairment on each balance sheet date. The standard states that as a minimum, the entity must test the following indications:

Outside Sources of Information

- Over the course of a period, a significant decrease occurred in the market value of the asset beyond that projected as a result of the passage of time or regular use.

Methodology

Identification of Asset the Value of Which May be Impaired (Continued)

- Material changes with a negative impact on the entity occurred over the course of the period or will occur in the near future, in the marketing, economic or legal environment in which the entity is active, or in the market for which the entity is intended.
- Over the course of the period, an increase occurred in market interest rates or in other yields on investments in the market, and it is likely that these costs will impact the discount rate used to calculate the value of the asset, and significantly reduce the asset's recoverable sum.
- The carrying amount of the entity's net assets is higher than the entity's market value (market capitalization).

Inside Sources of Information

- There is available evidence of the aging or physical damage to an asset.
- Significant changes with a negative impact on the entity occurred during the period or are forecast to occur in the near future, at a level or in a manner in which the asset is used or is forecast to be used in the future.
- Available evidence exists from the internal reporting system that indicate that the asset's economic performance is, or will be, worse than projected.

The above list is not comprehensive. An entity may identify additional signs indicating a possible drop in the value of an asset.

The existence of signs of impairment will require that the entity determine the recoverable sum of the asset, or, in the case of goodwill, test for impairment.

If the recoverable sum for a single asset cannot be estimated, the entity must calculate the recoverable sum of the cash-generating unit to which the asset belongs. The cash-generating units need to be consistently identified from one period to another with the same assets or types of assets unless some change is justified.

Goodwill

In order to test the impairment of goodwill acquired in a business combination, goodwill recognized on the acquisition date will be allocated to each of the cash-generating units or group of cash-generating units of the buyer, which are expected to benefit from the synergy involved in the combination, irrespective of whether other assets or liabilities of the acquired entity were assigned to those units or groups of units. Each unit or group of such units to which goodwill was assigned as noted above will represent the lowest level in the entity tracking goodwill for internal management purposes and shall be is no larger than an operating segment as defined in IFRS 8, before collecting similar segments.

Measuring a Recoverable Sum

General

The recoverable sum of an asset or cash-generating unit is its fair value less sales costs or its value in use, whichever is higher.

The standard states that it is not always necessary to determine both the fair value less costs of sale and its value in use. If one of these sums is higher than the asset's carrying amount, no impairment takes place in the value of the asset and there is no need to estimate the additional sum.

Methodology

Measuring Recoverable Sum (Continued)

If there is no reason to believe that the value in use of an asset significantly exceeds its fair value less costs of sale, the fair value of the asset less costs of sale may serve as a recoverable sum. Often, this will be the case when the asset is intended for use. This is due to the fact that the value in use of an asset intended for realization will largely be based on net proceeds from realization, as it is reasonable that future cash flows from continued use of the asset up to its sale are negligible.

Fair Value Less Costs of Sale

The best evidence of fair value less the costs of sale of an asset is the price set in a binding sales agreement in a transaction that is not influenced by special relationships between the parties adjusted for incremental costs that can be directly attributed to the realization of the asset.

When there is no binding sales agreement, but the asset is traded on an active market, the fair value less costs of sale shall be the market price of the asset less costs of disposal.

When an asset does not have a binding sales agreement or active market, fair value will be based on the best available information in order to reflect the sum an entity could have received, on the balance sheet date, in return for realization of the asset in a transaction that is not influenced by special relationships between the parties, between a willing buyer and a willing seller, operating in a rational manner. When determining this sum, an entity takes into account the results of transactions carried out recently in similar assets in the same industry. Incremental costs that could have been directly attributed to the realization of the asset must be subtracted from fair value.

Value in Use

The following components will be reflected in the calculation of the asset's values in use:

- Assessing future cash flows, both positive and negative, deriving from the ongoing use of the asset and its ultimate realization.
- Forecasts regarding possible changes in the sum of timing of these future cash flows.
- The time value of money, represented by a current market rate of risk-free interest.
- The price for bearing uncertainty, embedded in the asset.
- Other factors, such as the lack of liquidity, that are reflected in the market will be valid in pricing future cash flows that the entity expects to generate from the asset.

Assessing the value in use of the asset includes the following stages:

- Assessing future cash flows, both positive and negative, deriving from the ongoing use of the asset and its ultimate realization.
- Implementation of an appropriate discount rate for these future cash flows.

When measuring the entity's value in use:

- The cash flow forecast will be based on reasonable and established assumptions, which represent management's best estimates regarding the economic conditions that will exist throughout the balance of the asset's useful life span.

Methodology

Measuring Recoverable Sum (Continued)

- The cash flow forecasts will be based on the most up-to-date budgets/monetary forecasts approved by management. Forecasts based on such budgets/forecasts will cover a maximum period of 5 years unless a longer period can be justified.
- The cash flow forecasts will be estimated for the period beyond the period covered by the most up-to-date budgets/forecasts, by extrapolating these forecasts using a fixed or decreasing growth rate for subsequent years. When the carrying amount of an asset does not yet include all of the negative cash flows that will be created until the asset is ready for use or for sale, estimated negative future cash flows are supposed to include an estimate of additional negative cash flows, which are expected to arise in order to prepare the asset for use or for sale.

Estimated future cash flows will **not** include positive estimated future cash flows expected to derive from:

- Future structural changes the entity is not committed to.
- An improvement or increase in the asset's performance level.
- Positive or negative cash flows from financing activities
- Taxes on income payments or receipts.

Future cash flows are estimated in the currency in which they are produced and are subsequently capitalized while using a discount rate suitable to that currency. Entities translate the current value according to the immediate exchange rate on the date on which the value in use was calculated.

Discount Rate

The discount rate needs to be a pre-tax rate that reflects current market assessments of:

- The time value of money.
- The asset's specific risks, for which the estimates of future cash flows were not adjusted.

Testing Impairment of Goodwill

The impairment of goodwill will be tested by comparing the carrying amount of the unit, including the goodwill, to its recoverable sum. If the unit's recoverable amount exceeds its carrying amount, the value of the unit and goodwill allocated to the unit shall be considered undamaged. If the unit's carrying amount exceeds the unit’s recoverable sum, the entity will recognize an impairment loss.

Methodology

Recognizing Impairment Loss

The impairment loss must be allocated to reducing the carrying amount of the unit's assets in the following order:

A. First, reduce the carrying amount of any goodwill allocated to a cash-generating unit, and subsequently;

B. To the unit's remaining assets on a relative basis on the basis of the carrying amount of each unit asset.

These amortizations of carrying amounts will be treated as impairment losses of individual assets.

In order to allocate the impairment loss in accordance with the above, an entity shall not decrease the carrying amount of an asset below the higher of the following:

- Its fair value less sales costs (if determinable);
- Its value in use (if determinable); or
- Zero.

The sum of the impairment loss that otherwise would have been assigned to the asset, will be assigned on a relative basis to the other assets in the unit.

Methodology

Discount Rate

Based to International Accounting Standard 36 (IAS 36), when measuring the recoverable sum of a cash-generating unit, payment due to income tax must not be included. As a result, the discount rate used to estimate the current value of the cash flows must be calculated as the discount rate before tax.

The discount rate is calculated according to the WACC model, which is the weighted yield rate required by the capital owner, as detailed below:

WACC = Kd * (**%D**) + Ke * (**%E**)
With:

WACC	=	The weighted yield rate required by the capital owner;
Kd	=	Yield on debt, after tax;
%D	=	Rate of debt from total assets;
Ke	=	Yield on equity;
%E	=	Rate of equity from total assets;

The rate of yield on equity is determined according to the CAPM (Capital Asset Pricing Model). According to this model, the yield on equity is derived from risk-free interest as of the date of purchase plus a market risk premium multiplied by the Company's risk level relative to the standard deviation of the market portfolio (β).

With: SCP + SRP + (Rf – Rm) *β + Rf = Ke

Rf – rate of risk-free interest based on the real Israeli risk-free interest rate, for a period of 15 years, from the fair Mervach Hogen data source.

β – the relative risk coefficient. This coefficient reflects the relative risk involved in a certain investment and is based on the level of correlation between the investment’s yield and the yield of the capital market as a whole; when this coefficient is greater than 1, the business is highly sensitive to changes in the state of the market.

Meaning that in the event of a recession the industry will be more negatively impacted than other industries, and in the event of prosperity the industry will undergo a more positive impact than other industries. When this coefficient is smaller than 1, the value of the activity is less sensitive than average to changes in the market condition.

In order to calculate the β of the Company's activity, we relied on the average β of public companies active in the Israeli communications industry.

Rm-Rf – Israel’s risk premium according to Damodaran.

The Company's leverage rate – it has been assumed that the Company will finance its activity in the future using a financing structure similar to the financing structure of publicly traded companies active in the communications industry.

Kd – represents the price of the Company's long-term debt (15 years) in real terms and calculated based on the current yields of the debenture series issued by the Company, while adjusted the estimated life span.

SCP – size premium in accordance with Duff & Phelps, 2023.

SRP – a specific premium, wich reflects, inter alia, the overregulation in the communications market in Israel.

Methodology

Discount Rate (Continued)

The following are details of the parameters used to calculate the two segments' capitalization rate as of December 31, 2022 and 2023:

Parameters	Marking	31.12.23	Source	31.12.22
(%) Debt	D/(E+D)	36.8%	According to the leverage rates of the comparison group members	35.1%
(%) Fair Value	E/(E+D)	63.2%	According to the leverage rates of the comparison group members	64.9%
Foreign Capital Price	Kd	3.68%	In accordance with Cellcom's debt price	3.55%
Tax Rate	1-t	77.0%	According to the Israeli tax rate – 23%	77.0%
Risk-Free Interest	Rf	1.65%	Risk-free interest in Israel, real for 15 years, from the fair margin system as of December 31, 2023	0.97%
Market Risk Premium	Rm-Rf	5.93%	Rm-Rf – Israel's risk premium according to Damodaran from January 2024	6.42%
β	Beta	0.91	Average betas of comparison group	0.88
Size Premium	SCP	1.37%	Duff & Phelps 2023	1.21%
Specific Risk Premium	SRP	4.00%	According to our experience	4.00%
Equity Price	Ke	12.40%	Rf+β*(Rm-Rf)+SCP+SRP	11.84%
Average Weighted Capital Price After Tax	**WACC**	**9.00%**	**(D/V)*(1-T)*Kd + (E/V)*Ke**	**8.75%**

As the basis of the discount rate, as detailed above, is after taxes, it must be adjusted to reflect a discount rate before taxes. For this purpose, value in use was calculated given a discount rate after tax of **9%**. After that, the discount rate before tax needed to reach the value in use received was calculated. Based on the above, the discount rate before tax found in the mobile segment was **11.46%**, and in the terrestrial segment, **11.32%**.

Chapter 5
Goodwill Impairment Test – Mobile Segment

Goodwill impairment review – Mobile Segment

General

Timing of impairment review

At the request of Company management, the goodwill impairment test for the mobile segment activity in the Company's books was carried out in accordance with IAS 36 as of December 31, 2023.

Identifying Cash-Generating Units

In accordance with IAS 36, for the purpose of testing impairment, the standard defines a cash-generating unit as the smallest identified group of assets that generates positive cash flows, which are largely independent of positive cash flows from other assets. For more information see chapter "Methodology".

Company management has established that the activity of the mobile segment, is the smallest cash-generating unit to which goodwill may be assigned.

Recoverable amount of cash-generating units

In accordance with IAS 36, the recoverable amount of the cash-generating unit is its fair value less cost of sales, or its value in use, whichever is higher. For more information see chapter "Methodology". The value in use of the cash-generating unit was calculated using the revenues approach, the discounted cash flow method.

Carrying amount of the cash-generating units

For more information on this subject see the chapter below.

General assumptions:

1. **Forecast years** – represent the period from January 1 2024 to December 31, 2028 as well as the representative year ("Forecast Years").
2. **Creating cash flow forecast for the Forecast Years** – The cash flow forecast for the Forecast Years is based on the Company's 2024 budget and on the multi-annual plan prepared by Company management. We reviewed this forecast and found it to be reasonable based, inter alia, on the Company's actual results for previous years, discussions and talks with Company management, available market data, newspaper articles, internal studies carried out by BDO on the media industry, practices and experience in the industry and more.
3. **Real forecast** – the cash flow in the Forecast Years is presented in real values. Therefore, the discount rate (WACC) is in real values.
4. **Financial data by activity** – A cash flow forecast over the Forecast Years created by Company management for each of the Company's activities. We emphasize that the financial data provided by Company management is compatible with the Company's total operating profits in its audited and reviewed Financial Statements, with adjustments to accounting reporting, but is not necessarily compatible with the accounting classifications available to users (such as classifying expenses between cost of sales and operating expense).
5. **Tax rate** – the tax rate taken into account is the Israeli corporate tax rate, 23%.
6. **Capitalization rate** – the real yearly discount rate was estimated at 9% after tax (11.46% before tax).

Goodwill Impairment Test – Mobile Segment

Operating Cash Flow Forecast

The following is the operating cash flow forecast for the mobile segment (millions of NIS):

Millions of NIS	2023	2024	2025	2026	2027	2028	Representative Year
Revenues Cellular service with out connectivity fees	1,572	1,636	1,677	1,719	1,763	1,807	1,834
Change %		*4.0%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*1.5%*
Revenues connectivity fees	420	357	152	–	–	–	–
Change %		*-15%*	*-57%*	*-100%*			
Total Cellular service revenues	**1,992**	**1,993**	**1,828**	**1,719**	**1,763**	**1,807**	**1,834**
Change %		*0.0%*	*-8.2%*	*-6.0%*	*2.5%*	*2.5%*	*1.5%*
Revenues from end equipment	912	857	865	874	882	891	905
Change %		*-6.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.5%*
Total Revenues	**2,903**	**2,849**	**2,694**	**2,593**	**2,645**	**2,698**	**2,739**
Change %		*-1.9%*	*-5.5%*	*-3.8%*	*2.0%*	*2.0%*	*1.5%*
Cost of sales with out connectivity fees	(1,039)	(990)	(1,006)	(1,027)	(1,040)	(1,055)	(1,071)
Cost of sales connectivity fees	(438)	(373)	(159)	–	–	–	–
Gross Profit	**1,426**	**1,486**	**1,528**	**1,566**	**1,605**	**1,643**	**1,668**
gross profits %	*49.1%*	*52.2%*	*56.7%*	*60.4%*	*60.7%*	*60.9%*	*60.9%*
Operating expenses	(626)	(634)	(624)	(631)	(632)	(639)	(649)
of total revenues %	*21.6%*	*22.2%*	*23.2%*	*24.3%*	*23.9%*	*23.7%*	*23.7%*
Depreciation and amortization expenses	(530)	(534)	(538)	(544)	(571)	(575)	(647)
of total revenues %	*18.2%*	*18.7%*	*20.0%*	*21.0%*	*21.6%*	*21.3%*	*23.6%*
Operating Profit	**271**	**319**	**366**	**392**	**403**	**429**	**372**
operating profit %		*11.2%*	*13.6%*	*15.1%*	*15%*	*15.9%*	*13.6%*
EBITDA	**800**	**853**	**904**	**935**	**974**	**1,004**	**1,019**
EBITDA %		*29.9%*	*33.6%*	*36.1%*	*36.8%*	*37.2%*	*37.2%*
Total capital investments		(611)	(623)	(618)	(634)	(638)	(647)
Depreciation and amortization		534	538	544	571	575	647
Changes in working capital balances		(1)	(5)	(5)	(6)	(6)	(4)
Total Cash Flow Adjustments		**(78)**	**(90)**	**(80)**	**(69)**	**(68)**	**(4)**
Operational Cash Flow		**241**	**276**	**312**	**334**	**361**	**368**

* There are differences between the manner in which certain revenues and costs are classified regarding their classification in the Financial Statement.

Goodwill Impairment Test – Mobile Segment

Revenues and gross income

Revenues in the mobile segment include revenues from cellular services – revenues from subscribers, from inbound and outbound roaming services, as well as from the Marathon network hosting and sharing agreement, and include revenues from the sale of terminal equipment.

Subscriber revenues – these revenues were estimated in accordance with the average number of subscribers and the monthly ARPU in each of the forecast years, as follows:

- Number of subscribers and market share – it was assumed that the total number of cellular subscribers in Israel will increase by 2% each year to 2028 and in the long term would increase by 1.5% per year, in accordance with the growth rate of the population based on long-term Central Bureau of Statistics forecasts[11]. We estimate the Company's market share, upon the review date, to be 32%, or 3,555 thousand subscribers. We assumed that the Company's market share would remain stable over the Forecast Years and for the long term.

- ARPU – In 2023, ARPU – excluding connectivity fee revenues and excluding revenues from the sharing agreement – amounted to NIS 36.7, compared to NIS 36.5 in 2022. The increase in 2023 is attributable to increase in 5G subscribers, along with slightly lower ARPU for roaming services (incoming and outgoing) due to the war that broke out in the fourth quarter of 2023.

In 2024, ARPU – excluding connectivity fee revenues and excluding revenues from the sharing agreement – is expected to amount to NIS 37.2, primarily due to increase in revenues from 5G cellular packages, along with decrease in revenues from roaming services due to the war, which is expected to continue in 2024, and due to penetration of eSIM technology, which would result in increased competition for overseas cellular packages and lower revenues from incoming roaming.

Note that in 2023, ARPU amounted to NIS 47.4, compared to NIS 48 in 2022. The decrease in 2023 is primarily due to the outline for elimination of connectivity fees (along with a decrease in cost of sales), expected to continue through complete elimination of connectivity fees by end of 2025. In 2024, ARPU is expected to be NIS 46.2, with the decline in ARPU primarily due to the lower connectivity fees (offset by the slight increase, as aforementioned).

[11] 2017 Central Bureau of Statistics publication “Israeli Population Forecast until 2065”.

Goodwill Impairment Test – Mobile Segment

Revenues and Gross Profits (Continued)

We further assumed that ARPU excluding revenues from connectivity fees and the Collaboration Agreement would increase over the Forecast Years, to NIS 38.2 for the representative year, an increase by NIS 1 over the ARPU forecasted for 2024. We assume that the increase will occur in light of the following:

- Expected decrease in ARPU due to expansion of eSIM technology, that would result in increased competition for overseas cellular packages, which should decrease revenues from roaming services.
- Fifth Generation packages, which are priced higher, are expected to be sold at increasing volumes. We assumed that this impact would increase ARPU more than the expected decrease in revenues from roaming services.

Revenues from network sharing and hosting agreement – These revenues reflect receipts expected by the Company from Marathon with respect to the revised network sharing agreement, as reported by Company management.

Terminal equipment revenues in the mobile segment – revenues from sale of terminal equipment in the mobile segment amounted to NIS 930 million in 2022, and were 2% lower in 2023, at NIS 912 million. In 2024, the Company expects a 6% decrease in terminal equipment revenues, and we assumed a moderate increase in this segment for the remainder Forecast Years.

Operating Expenses

The segment's operating expenses largely consists of salary and associated expenses including vehicles and welfare, as well as various advertising and marketing expenses, electricity, maintenance, security, doubtful debts and so on. The expenses presented do not include leases covered by IFRS 16 and do not include depreciation and amortization.

Note that operating expenses for this segment include operating expenses for Golan Telecom.

According to Company management, 60% of operating expenses are attributed to the cellular segment and 40% of operating expenses are attributed to the terrestrial segment. According to Company management, in 2024 an increase is expected in Company operating expenses attributable to components such as the cost of electricity and new site deployment, higher marketing and advertising expenses and increase in expenses.

Cash flow adjustments

In order to achieve a cash flow that will be used to estimate the value in use of the group of cash-generating units, the operating profit before tax forecasts are required to undergo a number of adjustments, in order to assess the investment needed for those assets generating the revenues forecast. These items include non-cash items that are added to the cash flow (depreciation and amortization), capital investments needed to maintain the existing situation as well as investments in working capital.

Goodwill Impairment Test – Mobile Segment

Cash flow adjustments (Continued)

Capital investments (CapEx)

The Company's capital investments include, among other things, investment in the deployment and continued construction of the 4 and 5G networks and investments in equipment replacement at sites. In 2023, investments in the mobile segment (including lease renewals) amounted to NIS 624 million, a decrease of 3.7% compared to 2022. The decrease in investments is primarily due to a decrease in cellular site deployments and in current investments in IT, compared to 2022. In 2024, the Company budgeted for investments (including lease renewals) amounting to NIS 611 million. We note that the investment forecast includes both commissions and incentive payments to marketers, which were capitalized to an asset (by application of IFRS 15), and investments in future leases (IFRS 16).

Depreciation and amortization

Depreciation and amortization were examined relative to the scope of investments for which we adopted management's forecast. We assumed that depreciation would be equal to investments in the representative year.

Investments in working capital

The Company's working capital in the mobile segment as of December 31, 2023 amounted to (positive) NIS 267 million. It was assumed that the balance of working capital would change in the forecast year as a function of the change in revenues.

Summary

Based on the assessments detailed above, the following is the operating cash flow forecast of the base scenario of the mobile segment cash-generating unit for the forecast years (NIS in millions):

Millions of NIS	2024	2025	2026	2027	2028	Representative Year
Operating Profit Before Tax	319	366	392	403	429	372
Total Cash Flow Adjustments	(78)	(90)	(80)	(69)	(68)	(4)
Cash Flow for Capitalization	241	276	312	334	361	368
Capitalization Period	0.5	1.5	2.5	3.5	4.5	4.5
Capitalized Cash Flow	228	235	238	228	221	2,267
Value of Activity	3,418					

Accordingly, the value in use of the mobile segment was estimated at NIS 3,418 million.

Long-term growth rate

We assumed the long-term growth rate in the mobile segment to be 1.5%, which is the weighted growth rate for all of the aforementioned segments.

Goodwill Impairment Test – Mobile Segment

Sensitivity Analyses

The following table shows a sensitivity analysis of the recoverable sum relative to the cap rate after tax and the long-term growth rate (millions of NIS):

		Cap Rate After Tax				
		9.50%	*9.25%*	*9.00%*	*8.75%*	*8.50%*
Long-Term Growth Rate	2.00%	3,327	3,444	3,569	3,703	3,848
	1.75%	3,261	3,372	3,491	3,618	3,755
	1.50%	3,200	3,305	3,418	3,539	3,668
	1.25%	3,142	3,243	3,350	3,465	3,587
	1.00%	3,087	3,184	3,286	3,395	3,512

The following table shows a sensitivity analysis of the recoverable sum relative to the cap rate after tax and the monthly ARPU (in NIS) assumed in the representative year (millions of NIS):

		Cap Rate After Tax				
		9.50%	*9.25%*	*9.00%*	*8.75%*	*8.50%*
ARPU in the Representative Year	40.2	3,802	3,933	4,074	4,224	4,385
	39.2	3,501	3,619	3,746	3,882	4,027
	38.2	3,200	3,305	3,418	3,539	3,668
	37.2	2,899	2,991	3,090	3,196	3,310
	36.2	2,598	2,677	2,763	2,854	2,951

Chapter 6
Goodwill Impairment Test – Terrestrial segment

Goodwill Impairment Test – Terrestrial segment

General

Timing of impairment review

At the request of Company management, the goodwill impairment test for the terrestrial segment activity in the Company's books was carried out in accordance with IAS 36 as of December 31, 2023.

Identifying Cash-Generating Units

In accordance with IAS 36, for the purpose of testing impairment, the standard defines a cash-generating unit as the smallest identified group of assets that generates positive cash flows, which are largely independent of positive cash flows from other assets. For more information see chapter “Methodology”.

Company management has established that the activity of the terrestrial segment, is the smallest cash-generating unit to which goodwill may be assigned.

Recoverable amount of cash-generating units

In accordance with IAS 36, the recoverable amount of the cash-generating unit is its fair value less cost of sales, or its value in use, whichever is higher. For more information see chapter “Methodology”. The value in use of the cash-generating unit was calculated using the revenues approach, the discounted cash flow method.

Carrying amount of the cash-generating units

For more information on this subject see the chapter below.

General assumptions:

1. **Forecast years** – represent the period from January 1 2024 to December 31, 2028 as well as the representative year (“Forecast Years”).
2. **Creating cash flow forecast for the Forecast Years** – The cash flow forecast for the Forecast Years is based on the Company's 2024 budget and on the multi-annual plan prepared by Company management. We reviewed this forecast and found it to be reasonable based, inter alia, on the Company's actual results for previous years, discussions and talks with Company management, available market data, newspaper articles, internal studies carried out by BDO on the media industry, practices and experience in the industry and more.
3. **Real forecast** – the cash flow in the Forecast Years is presented in real values. Therefore, the discount rate (WACC) is in real values.
4. **Financial data by activity** – A cash flow forecast over the Forecast Years created by Company management for each of the Company’s activities. We emphasize that the financial data provided by Company management is compatible with the Company's total operating profits in its audited and reviewed Financial Statements, with adjustments to accounting reporting, but is not necessarily compatible with the accounting classifications available to users (such as classifying expenses between cost of sales and operating expense).
5. **Tax rate** – the tax rate taken into account is the Israeli corporate tax rate, 23%.
6. **Capitalization rate** – the real annual discount rate was estimated at 9% after tax (11.32% before tax).

Goodwill Impairment Test – Terrestrial segment

Operating Cash Flow Forecast

The following is the operating cash flow forecast for the terrestrial sector (millions of NIS):

Millions of NIS	2023	2024	2025	2026	2027	2028	Representative Year
Revenues from terrestrial segment services	1,370	1,390	1,415	1,435	1,472	1,511	1,522
Revenues from end equipment	285	307	310	313	316	320	323
Total Revenues	**1,655**	**1,697**	**1,725**	**1,748**	**1,789**	**1,831**	**1,845**
Change %		*2.6%*	*1.6%*	*1.4%*	*2.3%*	*2.3%*	*0.8%*
Cost of sales	(821)	(797)	(771)	(756)	(756)	(761)	(767)
Gross Profit	**834**	**900**	**954**	**992**	**1,032**	**1,070**	**1,078**
gross profits %	*50.4%*	*53.0%*	*55.3%*	*56.8%*	*57.7%*	*58.4%*	*58.4%*
Operating expenses	(416)	(422)	(415)	(420)	(420)	(425)	(430)
of total revenues %	*25.2%*	*24.8%*	*24.1%*	*24.0%*	*23.5%*	*23.2%*	*23.3%*
Depreciation and amortization expenses	(328)	(343)	(346)	(349)	(353)	(356)	(359)
of total revenues %	*19.8%*	*20.2%*	*20.0%*	*20.0%*	*19.7%*	*19.4%*	*19.5%*
Operating Profit	**90**	**135**	**193**	**223**	**259**	**288**	**289**
operating profit %	*5.4%*	*8.0%*	*11.2%*	*12.8%*	*14.5%*	*15.8%*	*15.6%*
EBITDA	**417**	**479**	**539**	**572**	**612**	**644**	**648**
EBITDA %	*25.2%*	*28.2%*	*31.2%*	*32.7%*	*34.2%*	*35.2%*	*35.1%*
Total capital investments		(369)	(393)	(385)	(416)	(420)	(359)
Depreciation and amortization		343	346	349	353	356	359
Changes in working capital balances		3	2	1	3	3	1
Total Cash Flow Adjustments		**(24)**	**(45)**	**(35)**	**(61)**	**(61)**	**1**
Operational Cash Flow		**112**	**148**	**188**	**198**	**227**	**290**

* There are differences between the manner in which certain revenues and costs are classified regarding their classification in the Financial Statements.

Goodwill Impairment Test – Terrestrial segment

Revenues and gross income

Internet services – the Company's revenues from internet services consist, among other things, from the Company's revenues from ISP services only, revenues from ISP and infrastructure services (as part of a bundle), as well as additional revenues such as transmission services. The forecast of revenues from internet services reflects the number of subscribers on each of the channels in question so that the revenues forecast was based on the projected average number of subscribers and the average revenue per subscriber for each channel separately.

As of December 31, 2023, the Company had 350 thousand internet infrastructure subscribers.

Since the Cellcom - IBC Agreement, Cellcom has been gradually transferring its customers to the IBC infrastructure (in lieu of the Bezeq infrastructure, the Wholesale Market), as made possible by the scope of IBC's deployment. The transition to IBC infrastructure has distinct advantages for Cellcom, both in the option of moving its customer to higher speeds and more advanced technology, and in terms of costs, which allows it to save Wholesale Market payments and move to payments in accordance with the agreement with IBC, which are significantly cheaper. Note that the Cellcom – IBC agreement reflects a lower price than IRU agreements signed in the market, such as the IRU agreement signed by Partner and Bezeq in 2022.

As noted, in February 2021 the HOT – IBC transaction closed, making HOT and equal partner in the IBC partnership. Introducing HOT as partner meant that IBC could significantly accelerate its infrastructure roll-out and increase its roll-out targets. As of the valuation date, IBC intended to reach 2 million households.

Moreover, in March 2023, the Company signed another agreement with IBC, increasing its commitment to purchase infrastructure lines (**see on page 4 of this document "The Company and its operations**).

In order to build a forecast of revenues from internet services, Company management estimated the number of subscribers for IBC fiber infrastructure services, the fiber wholesale market (Bezeq), the copper wholesale market and ISP only.

Over the Forecast Years, we assumed a gradual increase in total internet subscribers, as well as a significant change in the subscriber mix (fiber – copper), such that the percentage of fiber subscribers would increase significantly over the coming years.

As from June 2021, the Company started offering its fiber Internet services to customers, as part of the wholesale market over Bezeq infrastructure. Among other things, payment to Bezeq apply (primarily) for infrastructure subscribers in the Wholesale Market in accordance with the revised Wholesale Market rate, and a charge to IBC will apply in accordance with the scope of subscribers through it and in accordance with the IRU agreement with it.

In light of the deployment rate and connection forecast of hundreds of thousands of households in coming years, payment to IBC is expected to increase gradually to 2030 and is expected to decrease from this point onward. As elaborated below, payment to IBC is recognized under CapEx investments.

Goodwill Impairment Test – Terrestrial segment

Revenues and Gross Profits (Continued)

Television services – these revenues include the Cellcom TV service, which is provided as a stand-alone service or as Triple bundles (typically with ISP services and potentially a home land line). Moreover, revenues from Cellcom TV also include premium packages (additional content services), converters, Netbox, installation services and more.

In order to build a forecast of revenues from television services, Company management estimated the scope of subscribers in the Triple package and the scope of subscribers for television only. The revenues forecast was based on the projected average number of subscribers and the average revenue per subscriber for each channel separately. The number of TV subscribers as of December 31 2023 was 263 thousand. Company management also assumed that over the long term, the number of subscribers would gradually increase to 290 thousand. It was further assumed that over the long term, ARPU per triple bundle subscriber would remain stable.

Private and business domestic operator – the domestic operator activity in the communications market has been dropping in recent years, among other reasons due to the penetration rate of smartphones and/or tablets, the decrease in calls from land line telephones and more. Based on a market analysis and talks with Company Management, these revenues are expected to continue dropping in coming years, while business domestic operator revenues are expected to remain stable.

International Long Distance (ILD) – international long distance calling has been declining in recent years, among other reasons due to the increasing use of internet-based calls from smartphones, which are replacing packages for international calls from land line telephones. According to Company management, this activity is assumed to further decrease over the short term, to 0% in the representative year.

Business segment, transmission and others – including internet services for business customers, hosting and cloud services, data transmission services both to external customers and to the mobile segment, as well as other revenues. The Company's activity with business customers as well as the Company's revenues from the sources note above have been growing in recent years.

Revenues from terminal equipment in the terrestrial segment – Total revenues from sale of terminal equipment in the terrestrial segment in 2022 amounted to NIS 271 million and in 2023 to NIS 285 million. In the 2024 budget, the Company forecasts a 7.8% increase over 2023. Over the Forecast Years, we assumed a moderate 1% annual growth in this segment. Likewise, we assumed that the Company's gross profitability in the 2024 budget is the representative gross profitability and that it would remain stable for the duration of the forecast years.

Goodwill Impairment Test – Terrestrial segment

Operating Expenses

The segment's operating expenses largely consists of salary and associated expenses including vehicles and welfare, as well as various advertising and marketing expenses, electricity, maintenance, security, doubtful debts and so on. The expenses presented do not include leases covered by IFRS 16 and do not include depreciation and amortization.

According to Company management, 60% of operating expenses are attributed to the cellular segment and 40% of operating expenses are attributed to the terrestrial segment. According to Company management, in 2024 an increase is expected in Company operating expenses attributable to components such as the cost of electricity and new site deployment, higher marketing and advertising expenses and increase in expenses.

Cash flow adjustments

In order to achieve a cash flow that will be used to estimate the value in use of the group of cash-generating units, the operating profit before tax forecasts are required to undergo a number of adjustments, in order to assess the investment needed for those assets generating the revenues forecast. These items include non-cash items that are added to the cash flow (depreciation and amortization), capital investments needed to maintain the existing situation as well as investments in working capital.

Capital investments (CapEx)

The Company's capital investments include, among other things, equipment for customers' homes (including converters and routers) as well as installations at the customers' homes. Note that investments exclude the optical fiber roll-out carried out by IBC, but include payments to IBC for IRU purchases. In 2023, investments in the terrestrial segment (including lease renewals) amounted to NIS 314 million. In 2024, the Company budgeted investments (including lease renewals) amounting to NIS 369 million. We note that the investment forecast includes both commissions and incentive payments to marketers, which were capitalized to an asset (by application of IFRS 15), and investments in future leases (IFRS 16). We note that in the coming years, the Company is expected to invest significantly in IRU rights with IBC, in line with the roll-out pace by IBC. We assumed, for the representative year, that investments would decrease and would equal depreciation.

Depreciation and amortization

Depreciation and amortization were accounted for pro rata to investments, for which we adopted management's forecast.

Investments in working capital

As of December 31, 2023, the Company's working capital in the terrestrial segment amounted to (negative) NIS 105 million, as described under "Business operating results". It was assumed that the balance of working capital would change in the forecast year as a function of the change in revenues.

Goodwill Impairment Test – Terrestrial segment

Summary

Based on the assessments detailed above, the following is the operating cash flow forecast of the base scenario of the terrestrial segment cash-generating unit for the forecast years (NIS in millions):

Millions of NIS	2024	2025	2026	2027	2028	Representative Year
Operating Profit Before Tax	135	193	223	259	288	289
Total Cash Flow Adjustments	(24)	(45)	(35)	(61)	(61)	1
Cash Flow for Capitalization	112	148	188	198	227	290
Capitalization Period	0.5	1.5	2.5	3.5	4.5	4.5
Capitalized Cash Flow	106	126	144	136	140	1,734
Value of Activity	2,385					

Accordingly, we valued the terrestrial segment at NIS 2,385 million.

Long-term growth rate

We assumed the long-term growth rate in the terrestrial segment to be 1%, which is the weighted growth rate for all of the aforementioned segments.

Sensitivity Analyses

The following table shows a sensitivity analysis of the recoverable sum relative to the cap rate after tax and the long-term growth rate (millions of NIS):

Long-Term Growth Rate \ Cap Rate After Tax	9.50%	9.25%	9.00%	8.75%	8.50%
1.50%	2,322	2,403	2,491	2,584	2,685
1.25%	2,275	2,353	2,436	2,525	2,620
1.00%	2,231	2,306	2,385	2,469	2,559
0.75%	2,190	2,261	2,337	2,417	2,503
0.50%	2,151	2,219	2,291	2,368	2,450

Chapter 7

Examination of Need to Measure Impairment

Examination of Need to Measure Impairment

Book Value

After finding the recoverable sum of the activity, we shall compare it to the Company's carrying amount. If and only if we find that the recoverable sum of the asset is lower than its carrying amount, then the Company will have to impair the measured asset and amortize it accordingly.

In order to find the Company's carrying amount, we examined the segment's draft balance sheet for December 31, 2023. The carrying amount was comprised of the Company's operating assets and liabilities, as well as from the balance of the Company's goodwill attributed to the mobile segment (in millions of NIS).

The following is the carrying amount of both cash-generating units, the mobile segment, and the terrestrial segment:

Millions of NIS	Total	Terrestrial	Mobile
Working capital balance	163	(105)	267
Other operating assets	4,710	1,914	2,796
Total Carrying Amount	**4,873**	**1,809**	**3,063**

For more see Results of Business Activity.

Summary

Mobile Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2023, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no recognition of impairment is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2023
Recoverable Sum	3,418
Carrying Amount	3,063
Need for Impairment	**–**

Terrestrial Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2023, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no recognition of impairment is needed. The following table presents the results of the impairment test (in millions of NIS)

Millions of NIS	31.12.2023
Recoverable Sum	2,385
Carrying Amount	1,809
Need for Impairment	**–**

Chapter 8
Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Required Disclosures Regulation 8b of the Securities Regulations

In conformity with Regulation 8b of the Securities Regulations (Periodic and Reports), 1970 (hereinafter: "**Regulation 8b**") with regard to required disclosure for valuations enclosed with financial statements (hereinafter: "**Required Disclosures**"), below are the additional Required Disclosures (beyond those provided in this document):

Valuation of Cellcom activity as derived from the Company's stock market cap:

The following table presents the Company's market cap* in the six months ended December 31, 2023 (NIS in thousands):

NIS thousands	7-12/2023
Average market value	2,058,181
Maximum market value	2,516,432
Minimum market value	1,528,708

(*) The market cap for this period was standardized for issuances conducted by the Company.

The following table shows the value of Cellcom's activity as calculated by us in this opinion compared to the value of activity as derived from its average market value in the six months ended December 31, 2023 (NIS in millions):

Millions of NIS	Value in Use – Cellcom Activity	Average market Value of Cellcom's Activity for a period of six months from 1.7.2023 to	Market Value of Cellcom's Activity as of December 31, 2023
Company market value		2,058	2,470
Net debt (1)		(2,378)	(2,378)
Value of Activity	**5,803**	**4,436**	**4,848**
Gap (in millions of NIS)		1,367	955
Gap (in %)		**-24%**	**-16%**

(1) Net debt and surplus assets as of December 31, 2023.

Valuation of Cellcom activity as derived from the transaction

Below is valuation of Company activity, as derived from the transaction where Fortissimo Fund purchased Company shares:

Millions of NIS	Value of Cellcom's Activity
Value of Cellcom's according the transaction	2,600
Net debt	(2,378)
Value of Cellcom's Activity according the transaction	**4,978**
Value in Use – Cellcom Activity	**5,803**
Gap (in millions of NIS)	(825)
Gap (in %)	**-14%**

As evident, the gap between valuation of operations in this opinion and valuation of operations derived from the market value for the six months ended December 31, 2023 was NIS 1,367 million, or 24%. As evident, this gap decreased significantly soon prior to the valuation date, down to 16%, or 14% compared to the price set in the Fortissimo transaction.

We believe this gap to be reasonable, as it is primarily due to different market expectations regarding the impact of regulation in the telecom market as well as in light of Company expectations regarding the future structure of the industry. As we detailed in Chapter 5, as we see it, the cellular market is not in equilibrium in terms of current ARPU, and therefore we predict that the level of prices in the market will increase in the future.

Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Comparison to previous work

We conducted for Cellcom an impairment review of its mobile segment, in accordance with provisions of IAS 36, as of December 31, 2020-2022 and as of June 30, 2021. We also conducted for Cellcom an impairment review of its landline segment, in accordance with provisions of IAS 36, as of December 31, 2020-2022. These tests established the following results:

Mobile segment

Millions of NIS	31.12.2022	31.12.2021	30.6.2021	31.12.2020
Recoverable Sum	3,627	4,403	4,027	3,944
Carrying Amount	3,038	2,989	3,015	3,105
Need for Impairment	–	–	–	–

Terrestrial segment

Millions of NIS	31.12.2022	31.12.2021	31.12.2020
Recoverable Sum	2,688	2,707	2,152
Carrying Amount	1,819	1,761	1,759
Need for Impairment	–	–	–

Major changes with respect to the current study

Mobile segment

The following is a summary of key changes in assumptions between the valuation date as of December 31, 2022, and the current review as of December 31, 2023, for the mobile segment:

- The discount rate increased from 8.75% to 9%.
- Lateral changes and updates in the Mobile Segment as a whole, including in the number of subscribers at the starting point and future expectations, the ARPU and the costs in each of the activities, the scope of end equipment sales and projected profitability.

Terrestrial segment

The following is a summary of key changes in assumptions between the valuation date as of December 31, 2022, and the current review as of December 31, 2023, for the landline segment:

- The discount rate increased from 8.75% to 9%.
- Lateral changes and updates in the landline segment as a whole, including in the number of subscribers at the starting point and future expectations, the ARPU and the costs in each of the activities, the scope of end equipment sales and projected profitability.