



Immediate Report - Land Dispute

February 19, 2001

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**The Securities Authority
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**The Registrar of Companies
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Dear Sirs,

Further to the immediate reports of the Company on the subject of the decision of the Ministerial Committee for Privatization dated 27 August 2000 ("the Privatization Decision"), immediate notice is hereby given by the Company as follows:

1. According to the Privatization Decision, the proceeding of referral to the various entities interested in purchasing shares of the Company in a round of capital raising for the Company, which will accompany the privatization of the State's holdings in the Company by way of a private placement ("the Sale"), shall not take place except after completion, with the consent and approval of the Attorney General, inter alia, of a detailed description of the nature of the land dispute. On 18 February 2001, the approval of the Attorney General dated 15 February 2001 was received.
2. Attached to this immediate report is the document "Description of the disputes regarding Bezeq land", where the stance of the Company in the dispute, as worded by the Company, is described in Section 6 of the document, and the stance of the State, as worded by the State, is

described in Section 7 of the document.

3. It is noted that according to the Privatization Decision, the Companies Authority together with the Israel Lands Administration, the Accountant General at the Ministry of Finance and the Ministry of Justice, were authorized "to determine - with the approval of the Attorney General - a mechanism for deciding and accounting between the Company and the State and between the buyer in the Sale and the State, in relation to the land in dispute". Said accounting mechanism has not yet been determined, and will be determined before the submission of the proposals for the Sale.

Yours sincerely,

Shlomo Koppel
Corporate Secretary

Description of the Disputes Regarding Bezeq Land

1. Section 47(b) of the Telecommunications Law, 5742-1982, stipulates that:

"The stipulations of any law or agreement notwithstanding and subject to the provisions of the State Assets Law, 5711-1951, it is permitted, in an agreement, to grant the Company the State's rights in assets which were made available to the Ministry of Communications for the purposes of providing telecommunications services and the rights and powers of the State according to the agreements, the engagements and the transactions which were valid with regard to telecommunications services prior to application of the agreement; aforesaid agreement shall hereinafter in this Chapter be called an "Asset Transfer Agreement".

2. In 1984, an Asset Transfer Agreement was signed between the State and Bezeq (hereinafter - Bezeq or the Company). That agreement stipulated that the State transfers to the Company, inter alia, various rights relating to land, among them: in perpetual lease (hereinafter: "the Leased Assets"), in renewable rental for two years (hereinafter: "the Assets Under Renewable Rental"), and rights in those parts designated for Bezeq's use in assets designated for the joint use of Bezeq, the Postal Authority and the Ministry of Communications (hereinafter: "the Joint Assets"). In 1993, a framework agreement was signed between the Company and the Israel Lands Administration (hereinafter: "the Administration"), to which was attached a list of assets as Annex A to that agreement.

From the lists of assets which were attached to the Asset Transfer Agreement as Annex A, lists of assets are attached to this document as

follows: List A - Assets Under Renewable Rental, List B - Leased Assets, and List C - Assets from the Joint Assets regarding which Bezeq contends that their status is as that of the Leased Assets (hereinafter: "Joint Assets Named in List C"). Also attached, as List B1, is a document dated 4 December 1985 which sets our amendments to the data in some of the assets listed in Annex A to the Asset Transfer Agreement.

3. The Company and the State are in dispute as to the rights in the assets named in the aforementioned lists.

4. It is noted that with regard to some of the assets described in the lists attached to this document, actual use by Bezeq is not the same as the use noted against them in the lists; however, on this point, see the position of the State in Section 7.B.1 below, and in contrast, the position of the Company in Sections 6.B.1.c. and 6.C.1.c. below. Furthermore, with regard to a number of assets named in the lists, Bezeq contends discrepancies, as described in Section 6.E. below. The State does not agree with these contentions, as noted in Section 7.A.2. below.

It is further noted that List B includes 9 assets in which the Company's rights were sold by the Company, and List C includes 2 assets in which the Company's rights (in whole or in part) were sold by the Company; concerning some of these assets, the State (the Land Administration) gave its consent on terms which were stipulated; for the sale of some of these assets, the transactions are being examined by the Land Administration and not all the approvals have yet been given, insofar as required (and see also, on this point, the position of the State in Section 7.D. below).

5. The parties negotiated in the past, in an attempt to settle the various disputes by way of a settlement, but that attempt failed. At the present time, the intention is to bring the disputes before the court for its decision.

6. THE MAIN POINTS OF THE COMPANY'S POSITION ARE THESE:

A. General

1. It is the position of the Company that in the Asset Transfer Agreement and in the framework agreement, its rights were unlawfully prejudiced, inter alia in that in practice, the Company was not granted all the rights of the State, prior to the transfer, in the assets which were made available to the Ministry of Communications for the purpose of providing telecommunications services, and among them the Leased Assets, Joint Assets Named in List C and Assets Under

Renewable Rental.

2. In this matter, the Company contends, inter alia, that the Legislator and the Government intended, as reflected, inter alia, in the Telecommunications Law and in the Telecommunications Order (Assets and claims transferred to the Company), 5744-1984, and the intention of the parties to the Asset Transfer Agreement, was that the Company should step, in all matters and respects, into the shoes of the State, and to transfer to it all the rights of the State (as is) in the above assets, as they were immediately prior to the date of transfer.

3. It is the opinion of the Company that any action and/or engagement made contrary to the above legislation is overshadowed by the legislation and should be automatically dismissed.

B. The Assets Under Renewable Rental

1. a. Concerning the Assets Under Renewable Rental, the Company contends that from the outset there was no need to define, in the Asset Transfer Agreement, the rights of the Company therein as rights of "renewable rental", which appear, prima facie, to be construed as lesser rights than the full rights of the State, immediately prior to the transfer, in those assets.

b. It is the Company's opinion that it was and still is entitled to receive, in relation to those assets, rights of ownership or "quasi-ownership" which are not less than the full rights of the State in the assets immediately prior to their transfer to the Company, and which are not subject to any restrictions, inter alia, in connection with their use, transferability to a third party and the nature of their optimal use.

c. Accordingly, the Company contends that it may use the Assets Under Renewable Rental in any way it sees fit and as if it had full ownership.

2. Alternatively, the Company contends that the Company's rights in the Assets Under Renewable Rental are rights of "perpetual lease".

3. Alternatively to the alternative, the Company contends that it can be seen as having purchased in the Assets Under Renewable Rental a kind of proprietary right, i.e. "equitable property