Immediate Report - Tax Asset - Letter from the Israel Securities Authority

August 23, 2019

Immediate Report

Tax Asset – Letter from the Israel Securities Authority

Tel Aviv, Israel – Aug 23, 2019 – Bezeq The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), announced today that further to Note 7.5 of the Company's consolidated financial statements for the period ending December 31, 2018 and Note 6 of the Company's consolidated financial statements for the period ending March 31, 2019 concerning the deferred tax asset ("Tax Asset") for losses at the subsidiary D.B.S. Satellite Services (1998) Ltd ("DBS") in the amount of NIS 1.166 billion, and further to the Description of the Company's Business in the Company's Periodic Report for the period ending December 31, 2018 (section 2.20.5) concerning the Tax Asset as a risk factor, and the update of that chapter in the Company's financial statements for the period ending March 31, 2019 (section 2.13.7) regarding discussions with the Israel Securities Authority ("the Authority") concerning the Company's draft prospectus, and further to the discussions held between representatives of the Company and senior management of the Authority concerning the Company's application to receive permission to publish the prospectus, an Immediate Report is hereby provided.

On August 23, 2019 the Company received the comments of the Authority's senior management concerning the propriety of the accounting treatment the Company employed in recognizing the Tax Asset, including the formulated position of the Authority's senior management on the matter, which addresses the question of whether the Company established the forecast test that underlay the ability to continue to recognize the Tax Asset.

According to the formulated position of the Authority's senior management there are difficulties in the Company's position of recognition of the Tax Asset, and it would appear that the Authority's position is that the Company has not met the onus required to base the forecast for use of the Tax Asset in respect cumulatively of three events:

- Cancellation of the structural separation by the Ministry of Communications;
- Extension of the validity of the taxation ruling concerning use of the Tax Asset each year until the cancellation of the structural separation;
- The existence of adequate income over time after the date of cancellation of the structural separation of Bezeq and the merger with DBS that will facilitate use of the Tax Asset.

In the formulated position of the Authority's senior management it is noted that the assessment is valid from the 2018 financial statements and onwards, and not for earlier periods. This takes into account that some of the issues related to the structural separation are at the heart of a criminal investigation concerning senior officers of the Company in the years 2013-2017.

In accordance with the Authority's position, the Authority's senior management having not yet formulated its final position in the matter, the Company wishes to examine if there are additional arguments that it wants to bring up with the Authority's senior management, by August 28, 2019.

The Company is assessing the formulated position of the Authority and the continued recognition of the Tax Asset in the Company's financial statements, while there is a reasonable possibility that the Company will decide to completely write-off the Tax Asset in the second quarter 2019 financial statements.

It is hereby clarified that if the said write-off is carried out, this will be an accounting write-off only without any direct impact of the Company's current cash flow forecast, and that the accounting write-off in and of itself does not impact directly on the chances of the use of the Tax Asset in practice.