



April 2, 2020

Immediate Report

B Communications' Comments to the Notice of an Annual and Special General Meeting

Further to the notice of an Annual and Special General Meeting of Company shareholders published by the Company today ("the Notice"), B Communications Ltd. ("B-Com"), the holder, to the best of the Company's knowledge, of 26.34% of the issued capital and voting rights in the Company, sent its position, which is attached to this report, regarding Item No. 1.11 on the Agenda of the meeting - Amendment of the Company's Articles of Association at B-Com's request, to include this item on the agenda, as set out in Sections 1.11 and 1.14 to the Notice, including the relevant appendices.

Sincerely,
"Bezeq" - The Israel Telecommunication Corp. Ltd.

The above information constitutes a translation of the Immediate Report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

Bezeq The Israel Telecommunication Corporation Ltd.

To:
The General Meeting of Bezeq

To whom it may concern

Re: **Amendment of the Articles of Association of Bezeq The Israel Telecommunication Corporation Ltd (“Bezeq”) according to the provisions of the Communications Order**

Further to the notice of the general meeting of shareholders dated April 2, 2020, B Communications Ltd. (“B-Com”) appeals to Bezeq shareholders as follows:

A. Introduction

A(1). Preamble

1. In a nutshell: **The amendment to Bezeq’s Articles of Association reflects directives issued by the Ministry of Communications under the Communications Order, an order whose provisions apply to Bezeq and with which it must comply. Therefore, the amendment to the Articles is in the Company’s interests. Bezeq’s compliance with regulatory directives, which ensure that it continues to hold its license, are in the Company’s interests. Compliance with the provisions of the Communications Order is Bezeq’s lifeline and breach thereof may affect its license, which is one of the Company’s cornerstones.**

A(2). Board of Directors resolution

2. On April 1, 2020, the Company’s Board of Directors adopted the committee’s recommendations regarding B-Com’s request in respect of the Company’s Articles of Association. The Board of Directors’ resolution is as follows:

“To present the Board of Directors’ position to the shareholders meeting as follows - the Board of Directors adopted the committee’s recommendations to the Company’s Board of Directors dated March 26, 2020 and March 31, 2020, which are attached to this resolution. The Company’s Board of Directors adopted the committee’s recommendation that it did not find the requested amendments to the Company’s Articles of Association to be in the interests of the Company and all of its shareholders, and that the amendment to the Articles of Association of the primary subsidiaries, which is expected to be submitted in future, as set forth in B-Com’s announcement dated March 30, 2020, could even be a disadvantage to the Company’s shareholders, and may, therefore, be considered unlawful.”

A(3). The Board of Directors’ intervention on the matters of the general meeting is not regulated by law or in the Company’s Articles of Association

3. According to Section 63.1 of Bezeq’s Articles, “an item which one or more shareholders who holds at least one percent of the voting rights at the general meeting requests the Board of Directors to include on the agenda of a general meeting to be convened in the future” must be included on the agenda.
4. Therefore, it was unnecessary to set up a Board committee to discuss the issue which B-Com as a shareholder requested raising on the agenda of the general meeting of

shareholders. The Board of Directors' opinion regarding the issue raised by B-Com is not required or necessary.

5. Therefore, establishment of the Board committee to recommend regarding the change to the Articles of Association, and the ongoing delay in handling of B-Com's request to raise the amendment to the Articles on the agenda of the general meeting - are unnecessarily impeding implementation of the Communications Order, according to B-Com's request.

B. The Board committee's recommendation lacks a legal basis

B(1). There is a regulatory obligation to having control of the Company

6. There is no basis to the Board of Directors' opening position that there is allegedly no regulatory obligation to having control of the Company. We shall specify below.
7. Section 4D of the Communications (Telecommunications and Broadcasts) Law, 1982 ("the Communications Law") stipulates:
 - 4D. (a) (1) The Prime Minister and Minister, at their initiative and the request of the Minister of Defense, with the government's approval, may set in an order that the telecommunications service set out in it is an essential service ("Essential Service"), in the event of one of the following:
 - (a) That cessation, reduction or any other impairment thereof, including regularity of the provision thereof, may harm State security or proper provision of services to the public;
 - (b) **That the acquisition of control or means of control or the holding thereof in an Essential Service provider may impair the government's telecommunications policy, including competition in this sector;**
8. Accordingly, the Ministers issued the Communications (Telecommunications and Broadcasts) (Determination of an Essential Service Provided by Bezeq Israel Telecommunication Corp.) Order, 1997 ("the Communications Order"), which stipulates, inter alia, as follows:

“Section 1 to the Order -

“Controlling shareholder” - the holder of control with regard to whom the terms of Section 4(A) apply.

Section 3 to the Order -

3(A) The control permit, as set out in Section 4D(a1) to the Law, issued to the controlling shareholder (“Control Permit”), **will stipulate the minimum rate of holding of the permit recipient of each type of means of control in a company** (“Minimum Rate”).

(a1) **The controlling shareholder shall not transfer control** or means of control to others if, as a result of the transfer, the controlling shareholder will hold any type of means of control in the Company at a lower rate than the Minimum Rate or ceases to be the controlling shareholder, without prior written approval from the Ministers, following consultation with the Minister of Defense.

(a2) The Company shall not allocate shares as a result of which the controlling shareholder will hold any type of means of control in the Company at a lower rate than the Minimum Rate or as a result of which it ceases to be a controlling shareholder, without the Ministers’ prior written approval.

(b) No individual shall hold significant influence in a company or a particular type of means of control in a company at a rate of 5% or more and shall not make a joint appointment, without prior written approval from the Ministers.

Section 4 to the Order -

4(A) **The control of a company shall be held by the Control Permit recipient**, that meets all of the following:...”

9. Consequently, the Communications Law and Communications Order stipulate that **Bezeq must have a controlling shareholder that has received a Control Permit**. Bezeq is naturally also bound by this law and must comply with it.

B(2). The regulatory reporting obligations also currently exist

10. The Board of Directors’ argument that the amendment to the Articles of Association allegedly imposes regulatory reporting duties on the Company that do not currently exist is baseless. The argument contradicts the explicit language of the Communications Order. We shall specify below.
11. In the amendment to the Articles, according to the control permit, B-Com requested as follows:

“Sections 42A and 42B will be added after Section 42 to the Articles, in the following format:

“42A. The Company will report to the Ministers, as defined in the Communications Order, regarding a holder of its means of control that holds excessive holdings, as defined in the Communications Order, immediately upon becoming aware of such excessive holdings.

42B. The Company will report to the Ministers regarding a shareholder that becomes an interested party in Bezeq within 48 hours from the date of becoming aware of the change.”

12. **And with regard to reporting, the Communications Order stipulates:**

Section 7 to the Order -

7. (a) In addition to the provisions of the law and the Company's Articles of Association, **the Company will keep register of interested parties** in which the details provided by **interested parties** and holders of significant influence will be documented, by law and according to the Ministers' announcement under Section 5(f).

(b) **Excessive holdings will be documented in the register of interested parties**, indicating that fact that they are excessive, as soon as this becomes known.

(c) In addition to the provisions of any law, a controlling shareholder, holder of significant influence or interested party will report to the Company regarding any acquisition of rights in respect of their holdings. The report will be made immediately and no later than fourteen days from the beginning of the first quarter subsequent to occurrence of the change. The report prescribed in this subsection will be recorded in the register of interested parties.

(d) Without derogating from the other provisions of this order, if the Company secretary becomes aware that an individual holds excessive holdings, the secretary shall require such individual to follow the requirements of this order, **and will report thereof to the Ministers immediately.**

Section 9 to the Order -

9. (a) **The Company shall report to the Ministers, to the best of its knowledge, of any change in details that require recording in the register of interested parties in the Company.**

Such report shall be made as soon as possible after becoming aware of the change and no later than seven days thereafter.

(b) On December 31 of each year, the Company will provide the Ministers with report on the holdings of means of control or significant influence in the Company and details that are required to be recorded in the register of interested parties and changes thereof during the year ended at such date, including details regarding agreements, financing and liens related to holdings (“Additional Details”), if the Company is aware of any Additional Details.

13. In other words, there can be no dispute that Bezeq must report to the Ministers, regarding both interested parties and excessive holdings, as required in the amendment to the Articles of Association.

B(3). The amendment only subjects a change of the existing control to appoint directors to the approval of the Ministry of Communications

14. The Board of Directors' argument that the proposed changes to the Company's Articles of Association allegedly limit the power of the investors to establish part of the Company's

corporate governance rules, and subjects the method of appointment of directors in the Company to the veto rights assigned to the Minister of Communications is baseless, and it only subjects a change in the existing control to the approval of the Minister of Communications.

15. This does disqualify the foregoing starting point that Bezeq must comply with the regulation applicable to it by law. If a change in the director appointment method might lead to the transfer of control of Bezeq without approval, Bezeq is obligated to maintain the existing method in order to avoid a breach of the order applicable to it.
16. The committee's other stipulations are also baseless:
 - (a) The proposed amendments only limit the Company and its shareholders in the same way as the provisions of the specific law applicable to Bezeq currently do.
 - (b) The proposed amendments do not constitute external intervention in respect of the core of the Company's corporate governance, but only as currently also exists under the specific law applicable to Bezeq.
 - (c) The proposed amendments are revocable and may be revised in the future, if possible in terms of the specific law applicable to Bezeq.
 - (d) The proposed amendments will be valid even if the control of the Company changes, because they originate in the specific law applicable to Bezeq.
 - (e) There are no grounds to determination that the proposed amendments are not in the Company's interests with respect to compliance with the law allows continuation of the Company's license.

B(4). The proposed change is in the interests of the Company

17. The Board of Directors' argument that "the sole purpose of the proposed changes to the Company's Articles of Association is to allow B-Comp to comply with the control permit and do not contribute to the interests of the Company" is unfounded. We shall specify below.
18. **The amendment to the Articles of Association is in the Company's interests with respect to an amendment to the Article that reflects directives issued by the Ministry of Communications** under the Communications Order, an order whose provisions apply to Bezeq and with which it must comply. Bezeq's compliance with regulatory directives, which ensure that it continues to hold its license, are in the Company's interests.
19. As long as the regulation in Israel requires Bezeq to have a controlling shareholder as explained above, it is in the Company's interests that its controlling shareholder complies with the regulation and receives all the assistance required from the Company for this purpose. In this regard, compared to the restrictions applicable to Bezeq under Section 3(a2) to the Communications Order:

(a2) The Company shall not allocate shares as a result of which the controlling shareholder will hold any type of means of control in the Company at a lower rate than the Minimum Rate or as a result of which it ceases to be a controlling shareholder, without the Ministers' prior written approval.

B(5). Section 46B of the Securities Law is not relevant regarding a change to the Articles of Association

20. The committee's argument that Section 46B of the Securities Law prevents changing the method of appointment of directors in Bezeq is unfounded.
21. Section 46B stipulates as follows:

46B. (a) The TASE shall not list for trading any shares or securities that are convertible or exercisable for shares unless shown that the following terms were ensured:

- (1) With regard to a company whose shares are listed for trading for the first time - there shall be only one type of shares in the company's capital that grants equal voting rights proportionate to their par value. This condition shall not apply to special State shares. This provisions does not prevent a company from issuing preference shares, provided that a year has passed since its shares were listed for trading for the first time.

22. Therefore, there is no connection between Section 46B and the requested amendment to the Articles of Association, and any attempt to interpret this section (which stipulates that there will be one type of shares, as Bezeq has) as preventing plurality voting of directors by a majority of those present at the general meeting is inappropriate. The amendment to the Articles does not “create” a new type of shares in the Company and does not assign any excessive power or rights to any shareholder over the other shareholders.
23. And note, the amendment to the Articles leaves the existing method in Bezeq’s Articles of Association in place. It does not change it, on the contrary, it instructs that any future changes requires the approval of the Minister of Communications, who, as we know, is subject to the rules of administrative law and must act reasonably.

B(6). Prescribing regulatory provisions in the Company’s Articles of Association is standard practice in communications licenses

24. Prescribing regulatory provisions is standard practice in communications licenses and the same was done in other licenses.
25. See, for instance, Partner’s license, which requires prescribing an excessive holdings mechanism in its Articles of Association:

“21.7(a) Excessive holdings will be recorded in the register of members (register of shareholders) of the license holder, indicating that they are excessive, as soon as the license holder becomes aware thereof, and the license holder will issue notice thereof to the holder of the excessive holdings and the Minister.

...

21.7(b)(4) The provisions of Section 21.7 will be included in the Articles of Association of the license holder, including the provisions of Section 21.9, mutatis mutandis.”

26. Similar sections regarding excessive holdings are also included in Cellcom’s license.
27. In addition, see Section 22.8 of Cellcom’s license, which requires prescribing the provisions regarding an observer on behalf of the GSS:

22.8(a) The Minister shall appoint an observer in the meetings of the Company’s Board of Directors and its committees, with security classification and compatibility, as prescribed by the General Security Services

The provisions of Section 22A will be included in the Articles of Association of the license holder.”

C. Amendment of the Articles of Association of the subsidiaries

28. Pursuant to the meeting held between Bezeq and B-Com, the amendment to the Articles of Association of the subsidiaries will be dealt with separately at a later date.
29. However, we shall note now that the Committee's argument that the changes allegedly discriminate against the Company's shareholders (as defined in Section 191 of the Companies Law) is baseless, and they do not unlawfully derogate from the rights of the other shareholders.

Sincerely,

Tomer Raved, CEO
B Communications Ltd.

The above information constitutes a translation of the Immediate Report published by the Company and B Communications. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.