



**Bezeq – The Israel Telecommunication Corp. Ltd.
("Company")**

July 21, 2020

The Israel Securities Authority

The Tel Aviv Stock Exchange

Immediate Report – Publication of Final Recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel

Further to the Company's immediate reports of November 6, 2019 and June 15, 2020 regarding the publication for public comments of the recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel ("**Inter-Ministerial Team**" or "**Team**"), and further to updates on the subject in section 2.7.2 of the chapter titled "Description of the Company's Business" in the Company's periodic report for 2019, an immediate report is hereby issued, stating that on July 20, 2020 the Company received the report of the Inter-Ministerial Team (dated July 15, 2020) containing its final recommendations ("**Report**"). Additionally, on the same day the Communications Minister announced his decision to adopt the Team's recommendations with several changes as detailed below.

According to the Report, the following are the main points of the regulatory framework recommended by the Inter-Ministerial Team:

- "A. Bezeq will be able to choose the statistical areas in which it will deploy and operate an ultra-broadband network to all households in those areas ("**Deployment Areas**"). Notice of the selected statistical areas will be given to the Ministry of Communications ("**Ministry**"), and Bezeq's obligation to complete the deployment in these areas within five years will be written into law. The milestones for completion of the deployment obligation, and the minimum timeframes for connecting customers in the Deployment Areas, will be established in its license. If Bezeq does not notify the Ministry of the Deployment Areas, and no updated deployment obligation for an ultra-broadband network is established in its license, the regulatory obligations currently applying to Bezeq and the other license holders will not change.
- B. HOT Telecom will not be required to deploy an ultra-broadband network that does not use its existing access network. Likewise, there will be no change in HOT Telecom's existing universal deployment obligation for services provided based on its coaxial cable network. Should HOT Telecom choose to provide advanced services on its coaxial cable network, it will be possible to consider changes in the existing deployment obligation. In any event, the provision of advanced services is subject to the presentation to the Ministry of a



deployment plan that addresses engineering and economic implications, and the approval of such a plan.

- C. To encourage deployment of an ultra-broadband network in the statistical areas where Bezeq announced that it would not be deploying an ultra-broadband network ("**Incentive Areas**"), a fund will be established to provide financial incentives for deployment of an ultra-broadband network to all households in those areas ("**Universal Fund**" or "**Fund**"). The Fund will allocate money through competitive procedures aimed at allocating the Fund's resources efficiently over the years of its operation, with the primary criterion for selecting the winners being the ratio between the number of households to which the network will be deployed and the amount allocated.
- D. The Universal Fund will be financed by annual payments of license holders (including Bezeq) under the Communications (Telecommunications and Broadcasting) Law 5742-1982 ("**Law**" or "**Communications Law**"), which engage primarily in the provision of data transmission services ("**Infrastructure-Related Entities**"), as well as corporations affiliated with Infrastructure-Related Entities that provide communications services, *inter alia*, as part of a package of services that includes telecommunications services of Infrastructure-Related Entities ("**Marketing-Related Entities**"). Payment to the Fund will be at a rate of 0.5% of these entities' annual revenues.
- E. To encourage Bezeq to commit to extensive deployment and to reduce the Incentive Areas, and in order to decrease the costs of deployment in the Incentive Areas and to facilitate competition in these areas despite the absence of multiple infrastructures, the Team recommends:
 - 1. Establishing restrictions on Bezeq's deployment in the Incentive Areas;
 - 2. Determining that Bezeq will not be able to compete in the competitive procedures for the allocation of funds from the Universal Fund;
 - 3. Setting the cost of using Bezeq's physical infrastructures in the Incentive Areas based on a different calculation method than the one established for the regulation of the wholesale market, so that the cost will be substantially lower;
 - 4. Determining that the winners of the competitive procedure for deployment in an Incentive Area will be obligated to provide BSA services on the ultra-broadband network to be deployed in that area to other license holders.
- F. Three years after the commencement of the Fund's operation, an inter-ministerial committee will review the pace of deployment in the Incentive Areas, the efficiency of the competitive procedure and the deployment financing cost, in order to consider the need for



changes in the competitive procedure as well as additional examination timelines, and will also formulate a recommendation regarding the Fund's continued operation."

Additionally, the Report's recommendations with respect to HOT Telecom include a recommendation to allow HOT to make use of the BSA service on the ultra-broadband network of another. However, to ensure such use is made as a complementary, and not alternative, means for the network's upgrade by HOT Telecom, the use will be allowed only with the presentation of an engineering plan for the upgrade of HOT Telecom's network, and the plan's approval by the Ministry, thereby ensuring that HOT Telecom will start providing ultra-broadband services independently.

As mentioned above, the Communications Minister has decided to adopt the Team's recommendations, with several changes, the major ones being:

- The first allocation of funds by the Universal Fund will be take place already in 2021 (instead of 2022).
- During the first three years of the Universal Fund's operation, it will be possible to weight various criteria (proximity to border, economic, security and social robustness of the area, and narrowing of gaps between Israel's center and periphery) on the scale of 10% of households to which the network will be deployed in Incentive Areas, per year.
- In the event that HOT Telecom chooses to deploy an ultra-broadband network that is not based on its existing access infrastructure, it should be subject to a 30% minimum deployment obligation as well as an obligation to meet a periphery-to-center deployment ratio of 1:1.
- In the event that HOT Telecom wins a competitive procedure in an Incentive Area, the households given access to hook up to an advanced network in that area will not be taken into account in evaluating HOT Telecom's compliance with the deployment obligations prescribed in its license.
- Communications regulations will be enacted in a manner enabling HOT Telecom to make use of the BSA service on Bezeq's network only after HOT has presented an engineering plan for network upgrade, approved by the Ministry.

Below are the links to the Hebrew Report and to the Communication Minister's decision as published on the Ministry of Communications website:

https://www.gov.il/BlobFolder/reports/20072020_2/he/Report_Communication_infrastructure_deployment_policy.pdf



https://www.gov.il/BlobFolder/reports/20072020_2/he/Communication_infrastructure_deployment_policy_ministers_reference.pdf

The Company is studying the Report and the Communication Minister's decision.

Sincerely,

Bezeq - The Israel Telecommunications 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.