



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

July 16, 2020

The Israel Securities Authority

The Tel Aviv Stock Exchange

**Immediate Report – Structural Separation in the Bezeq Group – Presentation of
the State's Position to the High Court of Justice**

Further to the Company's immediate report of February 1, 2020 regarding its petition to the High Court of Justice against the Ministry of Communications for the immediate removal of the structural separation in the Bezeq Group, and to the description in section 1.7.2.1 of the chapter titled "Description of the Company's Business" in the Company's periodic report for 2019, regarding the structural separation in the Bezeq Group, an immediate report is hereby issued, stating that on July 15, 2020, the State filed a notice of update in connection with the Company's said petition.

In the notice, the State advises that on June 30, 2020, the Director-General of the Ministry of Communications submitted to the Minister of Communications the report of the interdepartmental team set up to consider adjustments to the obligation of structural separation in the Bezeq and HOT Groups ("**Report**"). According to the Report, the team members from the Ministry of Communications and the observers from the Ministry of Finance's Budget Department and from the Anti-Trust Authority have recommended to the Minister not to cancel the obligation of structural separation in the Bezeq and HOT Groups at the present time. The notice likewise states that the team's recommendations were presented to the Minister of Communications, who, after studying and considering the recommendations, will decide on the matter. In light of the foregoing, the State's position is that the petition should be dismissed, and at the very least struck out – with the Company ordered to pay costs.

The Report (which is attached to the State's notice and also published on the Ministry of Communications website) notes, *inter alia*, the following with regard to Bezeq:

- The team and observers have found that the time is not yet ripe for the total cancellation of structural separation in the Bezeq Group, given that the Bezeq Group enjoys strong market power and dominance in the telecommunications market, and that elimination of the structural separation at this time may boost the Bezeq Group's power while hurting its competitors.
- The team's position is that the existing structural separation provisions have yielded results until now, and that doing away with structural separation at this time would seriously harm competition in the telecommunications market, which in turn would hurt the public and telecommunications consumers.



- The observers' position is that the present form of structural separation does not serve the objectives of the separation and fails to deal with the problems relating to competition in the market. Thus, structural separation should not be left in its current form, and other alternatives should be advanced, such as separation between wholesale and retail activities or separation between passive infrastructure and those of the Bezeq Group's other activities.
- Notwithstanding the team's position on the elimination of structural separation at this time, it did find that it is possible to make certain changes in the overall regulation that could potentially improve the public service and influence the structural separation. Thus, for example, in parallel with the team's work, the Ministry of Communications promoted a sweeping change in the method of marketing the "Reverse Bundle." In the past two years, the Ministry of Communications has not opposed the Bezeq Group's moves to reduce the separation between the subsidiaries' operations. Additionally, the team has recommended to the Communications Minister to consider changing the prevailing separation in Israel between the infrastructure service and ISP service.

It should be noted that since the issue of structural separation is not a binary one, the team believes that the matter must be further examined, in light of, among other things, market changes. The team recommends granting the Ministry additional time to continue working as it has until now, or to proceed by any other method to be decided by the Communications Minister, for the purpose of reviewing the alternatives and making recommendations regarding the implementation of the selected alternative.

The Company is currently studying the implications of both the State's position and the Report, while standing firm on its arguments in the petition. As the Company has already noted in its past reports, the limitations of structural separation have placed the Bezeq Group in a position of competitive inferiority that is only worsening with time vis-à-vis other telecommunications groups.

Below is the link to the Hebrew Report as published on the Ministry of Communications website:
https://www.gov.il/BlobFolder/reports/15072020/he/Team_report_Bezeq_and_Hot_groups_15072020.pdf

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.