

**THE TELECOMMUNICATIONS ORDER
(DETERMINATION OF ESSENTIAL SERVICE PROVIDED
BY "BEZEQ" THE ISRAEL TELECOMMUNICATION
CORP., LIMITED), 5757-1997**

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(DETERMINATION OF ESSENTIAL SERVICE PROVIDED
BY "BEZEQ" THE ISRAEL TELECOMMUNICATION
CORP., LIMITED)(AMMENDMENT), 5764-2004**

NOTE: THIS CONSOLIDATED TRANSLATION, ISSUED ON AUGUST 11, 2004, INCLUDES ALL AMENDMENTS TO DATE; THIS TRANSLATION IS UNOFFICIAL AND PROVIDED SOLELY FOR INFORMATIONAL PURPOSES; IT MAY NOT BE RELIED UPON FOR ANY OFFICIAL PURPOSE. THE SOLE AUTHORITATIVE AND OFFICIAL VERSION OF THIS ORDER IS THE HEBREW VERSION AS ENACTED AND AMMENDED FROM TIME TO TIME BY THE PRIME MINISTER AND THE MINISTER OF COMMUNICATION.

THE TELECOMMUNICATIONS ORDER (DETERMINATION OF ESSENTIAL SERVICE PROVIDED BY "BEZEQ" THE ISRAEL TELECOMMUNICATION CORP., LIMITED), 5757-1997

By virtue of our authority under sections 4D, 4E1, 4E2 and 59 of the Communications Law (Telecommunications and Broadcasting), 5742-1982¹ (hereafter: the Law), being satisfied that the grounds exist as specified in section 4D(a)(1)(a) and (b) of the Law for the designation of the services specified in section 2 of the Telecommunications Order (Determination Of Essential Service Provided By "Bezeq" The Israel Telecommunication Corp., Limited), 5757-1997² (Hereafter – The Principal Order), as essential services, and after having afforded the Company and all interested parties an opportunity to voice their contentions, and with the approval of the Government and of the Economics Committee of the Knesset in accordance with section 21A of the The Fundamental Law: The Knesset³ and section 2(b) of the Criminal Law, 5733 -1977⁴, we order as follows:

1. Definitions

In this Order –

“ **Computerized Systems Protection Officer**” – the person appointed by the management of the Company, with the approval of the Authorized Officer, as the person responsible for organizing and conducting activities required for the safe-guarding of an Essential Computerized System;

1 Principal Legislation 5742, p. 218; 5763, p. 407.

2 Subsidiary Legislation 5757, p. 396; 5762, p. 33.

3 Principal Legislation 5718, p. 69; 5761, p. 166.

4 Principal Legislation 5733, p. 226; 5754, p. 348.

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"means of control", " interested party", "officer" and "control" - as defined in the Law;

"directly or indirectly" - including by means of a controlled corporation or a holding entity, and including by means of an agent, trustee, trust company or nominee company, and including each of these together with others or in any other manner;

"Shareholder" – as per its meaning in The Companies Law 5759-1999⁵ (hereafter The Companies Law);

"Israeli Entity" - in respect of an individual - a person who is an Israeli citizen and a resident of Israel, and in respect of a corporation - a Company lawfully incorporated in Israel under the Companies Law, the day-to-day management and center of business of which are in Israel, and all the means of control of which are held exclusively by an Israeli citizen and resident of Israel or by a corporation in respect of which the conditions of this definition hold true; however, the Ministers, together with the Minister of Defense, may, as an exception, also permit a corporation to be regarded as an Israel Entity if it complies with other conditions set by the Ministers, provided that control of the Israel Entity is held by an Israeli citizen and resident;

"Holding Entity" - a person who controls a corporation or holds 20% or more of a particular class of means of control in a corporation, or who has invested therein an amount in excess of 20% of the equity of the corporation, whether in shares or in some other manner, other than a loan extended in the ordinary course of business;

"the Company" – “Bezeq” The Israel Telecommunications Corp., Limited.

⁵ Principal Legislation 5759, p. 189.

"holding", **"significant influence"**, **"merger"** and **"split"** – as per their meaning in section 4D of the Law;

"excess holdings" – holding of control, means of control or significant influence without approval as required by the Law or by this Order;

"vesting a right" - including a transfer, vesting a right of use, rental, lien, or attachment, whether by a voluntary transaction or by an act of law, whether directly or indirectly, whether at once or in installments, whether in a single transaction or in a series of transactions;

"the General License" - the General License granted to the Company, as amended from time to time, including any license that takes its place;

"the Ministers" – the Prime Minister and the Minister of Communication including any person authorized by them jointly for purposes of this Order;

"subsidiary" or **"nominee company"** - as defined in the Securities Law, 5728-1968⁶ (hereafter: The Securities Law);

"Security Know-How" – information as to methods, actions and means required for the safeguarding of Classified Information and for the safeguarding of Essential Computerized Systems, and the application thereof, and all information as aforesaid relating to Security Classification and Security Suitability of employees and service providers of the Company;

"Security Forces" – as defined in section 13 of the Law;

"hostile State" - a State with which the State of Israel does not maintain diplomatic relations, or any other State designated by the Minister of

⁶ Principal Legislation 5728, p. 234; 5760, p. 252.

Defense, notice thereof having been given to the Company;

“Essential Information” – information used in the operation of an Essential Computerized System;

“Classified Information” and **“Classified Subject”** – any information or subject, classified for security purposes as “Reserved”, “Secret” or “Top Secret”;

“joint appointment” - the exercise by two or more persons of the right to appoint, elect or dismiss the same General Manager or Director;

“Company Security Officer” – the security officer, as defined in the Public Bodies Security Arrangements Law, 5758-1998⁷, appointed for the Company;

“Essential Computerized System” – a computerized data system of the Company classified by the General Security Service as an essential system;

“Security Classification” and **“Security Suitability”** – as per their meaning in The General Security Service Law, 5762-2002⁸;

“Security Matters” – including Security Know-How, Classified Information, Classified Subject, Classified Service, Essential Information, Security Classification and Security Suitability, Information Security Activities, and Essential Computerized Systems Security Activities;

“Information Security Activities” – those actions necessary for the prevention of exposure or disclosure of Classified Information or information relating to a Classified Subject in the possession of the

7 Principal Legislation 5758, p. 348; Subsidiary Legislation 6235, 5763 (7 April 2003), p. 681.

8 Principal Legislation 5762 (21 February 2002), p. 179.

Company, for the safekeeping thereof and for avoidance of damage thereto;

“Essential Computerized Systems Security Activities” – those actions necessary for the protection of an Essential Computerized System of the Company and of the data bases that are used by the Company for the provision of services, and information relating to the operation and control of such Essential Computerized System and data bases, including protection of the availability of such system and the credibility of information therein;

“Interconnection” - as defined in section 5 of the Law;

“Authorized Officer” – a representative of the General Security Service;

“Purchasing” – including rent of a telecommunication facility, experimental telecommunication facility, upgrade of a telecommunication facility and maintenance of hardware or of a telecommunication facility;

“Classified Service” – a service provided by the Company to the Security Forces relating to Classified Subjects;

“Sister Corporation” - as per the definition of Sister Company in the DFL Regulations;

“Controlled Corporation” - a corporation which a person controls or in which he holds more than 20% of a particular class of means of control, or a corporation in which a person has invested an amount that exceeds 20% of the equity of the corporation, whether in shares or in some other manner, other than a loan extended in the ordinary course of business;

“DFL Regulations” - the Telecommunications Regulations (Procedures and Conditions for Obtaining a General License for the Provision of

Domestic Fixed Line Telecommunication Services), 5760-2000⁹.

2. Designation of Essential Service

- (a) The telecommunications services, which are essential services that the Company is obligated to provide pursuant to the General License and which the Company may not cease, reduce or otherwise impair, including the dependable provision thereof, are detailed below:
 - (1) basic telephone service, infrastructure service, transmission service and data transmission service, as defined in Regulation 1 of the DFL Regulations, including interconnection (hereafter: basic services) and in the definition of "infrastructure service" as it appears there - including allowing use by the defense forces;
 - (2) services incidental to the basic services and other services, as specified in Appendix Four;
 - (3) installation and maintenance services for the services enumerated in paragraphs (1) and (2).
- (b) The provisions of this section shall not derogate from the provisions of section 5 of the Law.

3. Restrictions on Control and Holding

- (a) In the control permit pursuant to section 4D(a1) of the Law (hereinafter – the Control Permit), the minimum rate of holding of the recipient of the Permit shall be set (hereinafter – the controlling party) for each of the classes of means of control of the Company

⁹ Subsidiary Legislation 5760, p. 886.

(hereinafter – the minimum rate); the minimum rate shall not be less than 30% of each of the classes of means of control of the Company.

- (a1) The controlling party may not transfer control or means of control to another in a manner that results in his holdings falling below the minimum rate, except with prior written consent of the Ministers, after consultation with the Minister of Defense.
- (a2) An allotment of shares of the Company requires prior written consent of the Ministers however, an allotment as a result of which the controlling party of the Company will hold each class of means of control in the Company, at or in excess of the minimum rate and which allotment was made to the public by means of a prospectus on the Stock Exchange in Israel or to Israeli institutional investors, does not require consent as aforesaid.
- (a3) If the level of the holdings of the controlling party of any class of means of control in the Company is reduced as the result of an allotment that requires approval pursuant to sub-section (a2), he will be required to purchase shares of the Company in such manner as will maintain the minimum rate, unless approval was granted for a reduction in the holdings, as in sub-section (a1) aforesaid, mutatis mutandis.
- (b) No person shall hold significant influence in the Company or 5% or more of any particular class of means of control in the Company, nor shall he make a joint appointment, without prior written consent of the Ministers.
- (b1) (Revoked)
- (b2) A party who has received approval for holding means of control or significant influence pursuant to sub-section (b), shall not have the

right to increase his holdings above the rate fixed in the permit or to increase his rights as set in the approval, including by means of agreements, inclusive of voting agreements, until after he has received an additional permit pursuant to sub-section (b), however the controlling party may, subject to the provisions of sub-section (b3), increase his holdings of means of control in the Company, without additional approval.

- (b3) No person shall acquire shares by way of a full Acquisition Offer, except with the prior written consent of the Ministers; for this purpose, "full Acquisition Offer" – as per its meaning in section 336(a) of the Companies Law.
- (c) The Ministers may refuse to grant approval pursuant to this section, and they are also authorized to stipulate conditions in the permit, the violation of which will be grounds for its cancellation by the Ministers.
- (d) (Revoked)
- (e) No person shall transfer control, significant influence or means of control in the Company to another, knowing that as a result of the transfer, the holdings of the transferee require approval pursuant to the Law or pursuant to this Order, as long as the transferee is not in possession of a control permit or a permit by the Ministers for significant influence or for holding means of control; for this purpose, "transfer of means of control" - including allotment of shares by the Company, mutatis mutandis.
- (f) For purposes of this section, the right to carry out an act includes the right to order such act to be carried out or to prevent same.
- (g) In this section -
"Stock Exchange in Israel" - as defined in the Companies Law;

"Public offering" - as defined in the Securities Law;
"Israeli institutional investors" - each of the following, on condition that it is not a foreign company, as defined in the Companies Law:

- (1) a provident fund as defined in section 47(a)(2) of the Income Tax Ordinance¹⁰;
- (2) a pension fund as defined in the Pension Funds Law (New Funds) (Ad Hoc Provisions), 5754-1994¹¹;
- (3) a joint investment trust fund, as per its meaning in the Joint Investment Trusts Law, 5754-1994¹²;
- (4) an insurer as defined in the Supervision of Insurance Transactions Law, 5741-1981¹³, which is a company the shares of which are listed for trading on the Stock Exchange in Israel and are held by the public;
- (5) a banking corporation as defined in the Banking (Licensing) Law, 5741-1981¹⁴.

4. **Israeli Identity**

- (a) Control of the Company shall, at all times, be held by an entity with regard to whom all the following are fulfilled:
 - (1) if an individual, he is an Israeli entity;
 - (2) if a corporation, it is a company incorporated in Israel under

10 Laws of the State of Israel, New Version 6, p. 120; Principal Legislation 5761, p. 142.

11 Principal Legislation 5754, p. 96; 5755 p. 4.

12 Principal Legislation 5754, p. 308; 5759 p. 151.

13 Principal Legislation 5741, p. 208; 5758 p. 64.

14 Principal Legislation 5741, p. 232; 5759 p. 24.

the Companies Law, whose center of business is in Israel and in which an Israeli entity holds, directly, at least 20% of each of class of means of control;

(3) (Revoked)

(b) A control permit shall lapse if the provisions of sub-section (a) cease to exist with regard to the controlling party.

4A. Restrictions on Approval Holder

(a) The controlling party of the Company shall, at all times, fulfill the following conditions: it shall not be under the control of any State or of any government corporation or of a corporation which is under the control of a government corporation; a control permit shall expire if the provisions set out in this sub-section are no longer fulfilled by the controlling party.

(b) An interested party or a person with significant influence in the Company shall not be one of the following:

(1) a hostile State, a citizen or resident of a hostile State, a corporation registered or incorporated in a hostile State or a corporation, control of which is held by a citizen or resident of a hostile State;

(2) a government corporation, unless the Ministers so approve, with the consent of the Minister of Defense;

a permit granted to an interested party or to a person with significant influence, pursuant to section 3(b), shall expire if such he no longer fulfills the conditions set out in this sub-section.

(c) For the purposes of this section, "government corporation" - a

corporation the control of which is held by any State.

5. Application for Approval by the Ministers

- (a) A person who wishes to receive a control permit or to hold significant influence or means of control in the Company, at a rate that requires approval pursuant this Order, or who wishes to enter into an agreement that will vest in him control or holding as aforesaid, or who wishes to make a joint appointment, shall submit a written application for same to the Ministers in advance.
- (b) A person holding significant influence or means of control in the Company to a degree that requires approval under this Order, including as a result of the realization of a charge on means of control or of the realization of any other right that devolved upon him, shall report same in writing to the Company, and shall submit an application to the Ministers for approval of his holdings in the Company, the aforesaid within 48 hours.
- (c) An application under sub-sections (a) and (b) shall be submitted by affidavit, drawn up in accordance with the questionnaire in the First Appendix, and shall include particulars regarding the applicant, with reference to those in Israel and abroad, as the case may be, as detailed below:
 - (1) the name of the applicant;
 - (2) with regard to an individual - his citizenship, his permanent place of residence and the States in which he conducts any activity, and with regard to a corporation - the State in which it was incorporated, the location of its principal place of business and the States in which it operates;
 - (3) the amount of the applicant's holdings in the Company at the

- time the application is submitted, and the amount that will be held, if the application is granted, including by virtue of agreements or voting agreements between him and others, or particulars of the joint appointment, including particulars about the officers whom he has the right to appoint;
- (4) particulars of every holding entity, direct or indirect, in the applicant, or holder of significant influence in the applicant, its Directors and all parties interested therein as well as the rate of their holdings therein or the offices that they hold; particulars of the corporations which are entities held by it and the rate of its holdings therein, particulars of every sister corporation of the applicant, and for each of them particulars of their holdings in the Company, as well as the particulars with regard to each of them as set out in paragraph (2).
 - (4a) particulars of his holdings in corporations incorporated or registered in a hostile State or the control of which is held by a hostile State or by a corporation incorporated or registered in a hostile State or by a citizen or resident of a hostile State;
 - (5) substantive particulars in respect of the agreement, the event or the manner by which the control, significant influence or the means of control in the Company came to be vested or are intended to be vested in the applicant, or about the joint appointment, including particulars as to the financing of the aforesaid and as to the parties which, directly or indirectly, participated therein, as well as the text of agreements and ancillary documents; if the applicant obtained financing from a banking corporation (hereafter: bank credit), then the text of the applicant's financing agreement with the banking corporation and ancillary documents shall be attached to the application; if security or sources of finance were, directly or

indirectly, provided for the purpose of the bank credit by a party or parties other than the applicant, then the application shall include full particulars of the transaction, in respect of the aforesaid, and the agreements and ancillary documents in connection therewith shall be attached;

- (6) particulars relating the activities of the applicant and also - as far as they are known to him - about the activities of all those referred to in paragraph (4) in the field of telecommunications and in other areas of communications;
 - (7) a declaration by the applicant and by every controlling party and officer thereof, regarding any investigation, conviction or indictment brought against any of them for a criminal offense other than traffic offenses and whether there were any outside of Israel;
 - (8) the consent of the applicant and of every controlling party and officer therein to the Ministers obtaining information regarding entries, as defined in section 2 of the Criminal Register and Rehabilitation of Offenders Law, 5741-1981¹⁵, which relate to them and to indictments brought against them for criminal offenses, other than traffic offenses, as well as their consent that such information be obtained from various States and various authorities in them.
- (c1) Notwithstanding the provisions of subsection (c), a banking corporation that "holds" merely because it owns a charge, shall not be required to provide the particulars under paragraphs (4), (4a), (6), (7) and (8) of sub-section (c), unless the Ministers order that it do so; this provision shall not exempt a banking corporation from providing all the said particulars as part of an application for

15 Principal Legislation 5741, p. 322; Principal Legislation 5752, p. 157.

approval to realize a charge;

- (c2) For the purposes of sub-sections (c) and (c1), "banking corporation" - a corporation that received a license under the Banking (Licensing) Law, 5741-1981, as well as a banking corporation that received a license in one of the "OECD" States.
- (d) A power of attorney, according to the text of the Second Appendix, shall be annexed to an application under subsections (a) and (b), authorizing the Company's Board of Directors to sell the applicant's excess holdings, as set out in section 6(b).
- (e) The Ministers may require particulars and documents in addition to those specified in the application and to those enumerated in subsection (c).
- (f) The Ministers shall inform the applicant and the Company as to their decision within 60 days of the day on which they receive the application or the additional particulars and documents - whichever is later.

6. Sale of Holdings

- (a) A party holding excess holdings -
 - (1) who has not applied for approval by the Ministers pursuant to section 5 - shall sell his excess holdings within seven days;
 - (1a) whose permit as granted by the Ministers, has been revoked or has expired, and who has not submitted a new application pursuant to section 5 - shall sell his excess holdings within 14 days after the date of the revocation or lapse, as the case may be;

- (2) who has applied for approval by the Ministers, including a party whose permit granted by the Ministers has been revoked or has expired and who submitted a new application pursuant to section 5, and whose application has been rejected - shall sell his excess holdings within sixty days after the day on which the Ministers informed him that his application has been rejected;
 - (2a) for the purpose of paragraphs (1), (1a) and (2) – “excess holdings” – with the exception of significant influence without approval, which does not ensue from holding means of control.
 - (3) shall not vest any rights in the excess holdings in another party, except in accordance with the provisions of the Law and of this Order.
- (b) If a party does not sell his excess holdings as aforesaid in sub-section (a), and the Company holds a power of attorney which he gave it in accordance with section 5(d), the Company shall, by means of the Board of Directors sell the excess holdings, within 60 days from the expiration of the periods specified in sub-section (a), by means of the Stock Exchange, in Israel or abroad, or by an off-exchange transaction, subject to the provisions of this Order; the Board of Directors shall transfer the proceeds of the sale to the holder less the expenses involved in the sale.
 - (c) Any transfer or sale of means of control, carried out according to a decision adopted by the Board of Directors of the Company for the sale of means of control pursuant to sub-section (b) shall be valid, and neither the party who held the means of control which were sold, nor the party which acquires them, shall have any claim whatsoever against the Company, including against the Board of Directors or a officer of the Company, in respect of his rights in the

shares, the process by which they were sold or the consideration received, except if the act was performed maliciously or with the intention of obtaining personal gain.

- (d) In addition to the provisions of any law, the Ministers or the Company may apply to the Court, to order such person to sell his excess holdings to appoint a receiver for the sale of the excess holdings, or to grant any other relief.

7. **Registration and Notification**

- (a) In addition to the provisions of any law and of the Bye-laws of the Company, the Company shall maintain a Register of Interested Parties, in which the particulars that interested parties and holders of significant influence furnished to the Company, by law, and notice of the Ministers under section 5(f) shall be registered.
- (b) Excess holdings shall be entered in the Register of Interested Parties, stating the fact that they are unauthorized, as soon as such information becomes known.
- (c) In addition to the provisions of any law, a controlling party, the holder of significant influence or an interested party shall notify the Company as to the vesting of any right in respect of his holdings; such notification shall be given immediately and not later than the business day that follows the date on which the right was vested; notification as described in this sub-section shall be entered in the Register of Interested Parties.
- (d) Without derogating from other provisions of this Order, if it becomes known to the Company Secretary that a person holds excess holdings, then the Company Secretary shall require such person to act in accordance with the provisions of this Order, and he shall forthwith notify Ministers thereof.

- (e) An interested party in the Company shall notify the Company and the Ministers as to its holdings in a corporation incorporated or registered in a hostile State or controlled by a hostile State or by a corporation incorporated or registered in a hostile State or by a citizen or resident a of hostile State.
- (f) A person who has received approval from the Ministers under section 5(a) or (b), shall notify the Ministers as to any change in the particulars which he furnished under section 5(c), immediately when he becomes aware of the change.
- (g) If more than three quarters of the issued share capital of the Company is held by the public and such shares are registered for trade on the Stock Exchange, the holder of two and half percent or more of any class of means of control in the Company, shall notify the Company and the Ministers, as to such holding, as to the persons controlling such holder and as to any person holding in excess of 10% of any class of means of control of such holder as well as the members of its Board of Directors; the Company shall maintain a register of persons who have notified the Company as aforesaid; a person who does not furnish a notification as aforesaid shall be deemed to be the owner of excess holdings and the provisions of this Order shall apply, mutatis mutandis, with the exception of the provisions of section 6.

8. **Holding Without Approval**

- (a) The exercise of any right derived from excess holdings, an application for approval of which was submitted to the Ministers, whether such application was rejected or has not yet been approved, shall have no validity, including with regard to the receipt of dividends, and without derogating from the generality of the aforesaid:

- (1) no Director or General Manager of the Company shall be appointed, elected or removed from office by virtue of excess holdings; if a Director or General Manager has been appointed, elected or removed from office as aforesaid, then the appointment, election, office or removal from office, as the case may be, shall not be valid;
 - (2) a vote at a General Meeting of the Company by virtue of excess holdings shall not be taken into account among the votes cast at the Meeting.
- (b) The holder of excess holdings who has not applied for approval by the Ministers pursuant to section 5, or has not sold his excess holdings in accordance with the provisions of section 6, shall be subject to the provisions of sub-section (a) in respect of all of his holdings.
 - (c) A joint appointment that has not been approved by the Ministers shall not be valid.
 - (d) If a person held excess holdings, and in consequence thereof the proportion of the holdings of another holder of means of control in the Company reached the rate that requires approval pursuant to this Order (hereafter - the relative holdings), then the relative holdings of the other party shall not be deemed to require approval by the Ministers pursuant to sub-section 3(b), unless the other party became a controlling party of the Company as a result of the aforesaid, or unless a year has passed since the relative holdings increased as aforesaid; if a year has elapsed since the relative holdings increased and such person has not received approval by the Ministers pursuant to this Order, then the exercise of any right by virtue of that part of the relative holdings for which approval has not been granted shall not be valid, except for the right to participate in

the profits of the corporation and in bonus shares.

- (e) The Company shall do its utmost to prevent any person from acting by virtue of excess holdings, to the extent that such are known to it.

9. Notification as to the Holders of Means of Control

- (a) The Company shall notify the Ministers, to the best of its knowledge, as to every change in particulars that require entry in the Register of Interested Parties of the Company; such notification shall be made as soon as possible after it has become aware of the change and not later than seven days thereafter.
- (b) On December 31 of each year the Company shall furnish the Ministers with a report as to holdings of means of control or as to significant influence in the Company and as to particulars that require entry in the Register of Interested Parties and as to changes therein during the year that ended on such date, including particulars as to agreements, financing and charges relating to the holdings (hereafter - additional particulars), to the extent that the additional particulars are known to the Company.

10. Validity of Approval

- (a) (Revoked)
- (b) If the control of a party who received approval by the Ministers is transferred to another party, the approval shall lapse.
- (c) If a person who received approval by the Ministers has holdings in a corporation that was incorporated or registered in a hostile State or which is under the control of a hostile State, or of a corporation

incorporated or registered in a hostile State or of a citizen or resident of a hostile State, the Ministers may, after consultation with the Minister of Defense, revoke the approval or subject the same to conditions, the breach of which will be grounds for revocation of the approval by the Ministers.

- (d) In the event of a change in the particulars furnished pursuant to subsection 5(c), and the Ministers deem that such change of particulars constitutes a substantive change, the Ministers may, after consulting with the Minister of Defense, revoke an approval granted or subject the same to conditions, the breach of which will be grounds for revocation of the approval by the Ministers.
- (e) If a person who has received approval by the Ministers is in breach of any of the conditions prescribed in this Order or in the approval, the Ministers may revoke the approval or set deadlines and terms for remedy of the breach.
- (f) If approval by the Ministers has been revoked or has expired in accordance with the provisions of the Law or of this Order, the holdings of such holder shall become excess holdings and the provisions of sections 6 and 8 shall apply.

10A Appointment of Observer

The Ministers shall appoint an observer at meetings of the Board of Directors of the Company and its Committees, who has security classification and security suitability as determined by the General Security Service, and for such purpose the provisions of section 4E1 of the Law shall apply.

11. Principal Place of Business and Meetings of the Board of Directors

- (a) The Company's day-to-day management and its principal place of business shall be in Israel.
- (b) Meetings of the Board of Directors and General Meetings of the shareholders of the Company shall be held in Israel.

12. Provision of Information to the Ministers

- (a) The Company shall furnish the Ministers, upon demand, with all information relating to matters concerning the provision of a essential service, as may be specified in the demand, in addition to the obligations specified in the Telecommunication Regulations (Supervision Over Activities of a Licensee), 5746-1986¹⁶ and in any other law.
- (b) If the Company becomes a private company, the Ministers may order the Company to furnish the Ministers with reports in addition to those specified in sub-section (a), should they deem it necessary in order to assure the objectives of this Order or for the public welfare.

13. Israeli Identity and Classification of Officers

- (a) 75% of the members of the Board of Directors of the Company shall be citizens of Israel and residents of Israel with security classification and security suitability, as determined by the General Security Service; (hereinafter – classified directors):
- (b) In order to ensure implementation of the requirement of sub-section (a) –
 - (1) A person who is not a classified director shall not be

¹⁶ Subsidiary Legislation 5746, p. 363; 5754 p. 778.

appointed or elected as a director and no such appointment shall be valid if as a result thereof the level of classified directors falls below 75% of the members of the Board of Directors;

- (2) If the term of office of classified directors has expired or came to an end in a manner by which the total number of the classified directors falls below 75% of the members of the Board of Directors, the directors who are not classified directors will not be permitted to participate in meetings of the Board of Directors as long as classified directors have not been appointed in the proportion required pursuant to subsection (a).
- (c) The following office holders, or their equivalents if the title or job description is changed, shall be citizens of Israel and residents of Israel and their employment shall be in accordance with security classification of the office and after the General Security Service has determined their security suitability for the office:
 - (1) The Chairman of the Board of Directors and all external directors;
 - (2) The Managing Directors, the Deputy Managing Director and their alternates;
 - (3) The Deputy Managing Directors in the fields of engineering, operation, data systems, marketing and finance;
 - (4) The Legal Adviser, his deputy and alternate;
 - (5) The Internal Auditor;
 - (6) The Security Officer and his staff;

- (7) The Computerized Systems Protection Officer and his staff;
- (8) Additional functionaries and office holders and service providers of the Company, including accountants and other consultants of the Company, who by virtue of the said functions may receive classified information or who's ongoing activities involve the security forces, as determined by the General Security Service in conjunction with the Security Officer and the Managing Director of the Company.
- (d) If the provision of sub-section (c) is not observed with regard to any of those listed therein, the appointment of such functionary or his employment in such function shall not valid, and the appointment or employment, as the case may be, shall be void.

13A. **Prevention of Disclosure of Classified Information**

- (a) Notwithstanding the provision of any law and subject to the provisions of sections 19(a)(2) and 36C(b) of The Securities Law, information with regard to security matters shall not be furnished and shall not be disclosed to office holders of the Company, to shareholders of the Company or to any other entity, unless the security forces have approved disclosure of the information; the Company may not furnish information with regard to security matters to a shareholder contrary to the directives of the Authorized Officer.
- (b) A subject that is classified may be discussed by the Board of Directors of the Company after coordination with the Security Officer of the Company; a director who is not a classified director may not participate in a meeting of the Board of Directors at which a classified subject is discussed and he is not permitted to receive information or to peruse a document that relates to a classified subject as aforesaid; the Company shall not furnish a director who is not a classified director with information or a document on

security matters.

- (c) The General Meeting shall not be entitled to assume, to delegate, to transfer or to exercise powers relating to security matters that are vested in another organ of the Company.
- (d) Any report or publication relating to security matters shall be in accordance with the special security arrangements that are determined by the authorized security forces, as the case may be.

13B Confidentiality and Information Security

- (a) Without derogating from the provisions of any law, the Authorized Officer may order the Company to carry out applicable instructions and security arrangements, or those that will become applicable, by virtue of government decisions or by virtue of any law relating to security, and the Company will fulfill such orders.
- (b) All documents and provisions relating to security matters shall be safeguarded or observed in accordance with the directives issued by the Authorized Officer from time to time.

13C Protection of Essential Computerized Systems

- (a) The Company, the Security Officer of the Company and the of Computerized Systems Protection Officer, shall carry out the professional directives relating to information security activities and essential computerized systems security activities, as issued to the Company from time to time by the Authorized Officer. .
- (b) For the purpose of this section, the Company shall, inter alia, employ means for the control of access to and means of surveillance of access to essential computerized systems, to components of the various systems, including data bases, data systems and control and regulation systems, in order to monitor, to supervise all operation

and maintenance activity, to prevent unauthorized access to the system and to detect attempts at unauthorized access as aforesaid, and the Company shall also employ additional ways and means necessary for the protection of essential computerized systems.

- (c) The means and work procedures employed by the Company for such purpose shall be in accordance with the directives of or as approved by the Authorized Officer, and the Company shall enable the Officer, or his appointee, at any time, access to any computerized system or facility of the Company in order to superintend the carrying out of such directives.
- (d) The Company shall take steps to ensure that any purchasing or installation of hardware, including terminal equipment or software connected with a essential computerized system, is carried out in full compliance with instructions given or which may be given by the Authorized Officer; for the avoidance of doubt, the Company shall conduct a preliminary consultation and shall request directives before the commencement of purchasing procedures as aforesaid.

13D. Security Know-how

The Company, its officers and its employees are permitted to make use of security know-how only for the purpose of safeguarding the Company, in accordance with the directives of the Authorized Officer and subject to observance of the confidentiality provisions as stipulated in this Order and in any law; any other use of the security know-how requires prior written consent of the General Security Service.

14. Transfer, Lien or Attachment of Necessary Assets

The vesting of a right in any of the assets specified in Appendix Three, requires prior written approval by the Ministers, which, except as regards item 4 of Appendix Three, is to be given with the consent of the Minister of Defense; the vesting of a right without such approval shall not be valid

vis-a-vis any person who knew or could have known of the requirement of the Ministers' approval for the transfer, and the Court shall not order such a right to be vested; in respect of vesting a right to means of control in a subsidiary of the Company - an allotment of securities, as a result of which a person holds more than 25% of the means of control in the subsidiary of the Company or as a result of which control of the subsidiary is transferred, shall also be deemed the vesting of a right to means of control.

14A. Purchasing of Hardware and Software

The Company shall take steps so that any purchasing or installation of hardware in the telecommunications facilities of the Company, other than terminal equipment, will be carried out in full compliance with instructions given or which may be given to the Company from time to time, pursuant to section 13 of the Law and in the manner provided therein; in this section -

"hardware" - any equipment, facility or instrument used for telecommunication purposes, as defined in the Law, including computer hardware or software, by means of which the equipment, facility or instrument operates;

"telecommunications facility" and "terminal equipment" - as defined in the Law;

"software" - as defined in the Computers Law, 5755-1995¹⁷.

15. Procedures for Liquidation and Organization

- (a) The acts specified below in regard to the Company require prior written approval by the Ministers:

¹⁷ Principal Legislation 1534, 5755 (25 July 1995), p. 366.

- (1) Voluntary winding up of the Company;
 - (2) Compromise or arrangement between the Company and its creditors or members;
 - (3) Change or reorganization of the structure of the Company;
 - (4) Merger of the Company with another company;
 - (5) Subject to the provisions of section 14, split of the Company.
- (b) In addition to the provision of any law, the Court is authorized to invalidate an act specified in sub-section (a), in respect of which approval was not granted, and to determine the consequences resulting from invalidation as aforesaid.

16. Applicability to the State

This Order shall not apply to the State as a party, which holds means of control in the Company or as a controlling party thereof.

17. Registration Company

Without derogating from the applicability of the Law and of this Order to a party whose holdings are by means of a nominee company, a nominee company is not obligated to obtain a permit or to render reports under this Order.

18. Transitional Provisions

If a person held means of control in the Company on the 2nd of Adar 5756 (February 22, 1996), to an extent requiring approval under this Order,

then his duly reported holdings on that date shall be treated as if they had been approved by the Ministers, however any increase in his holdings, in any amount whatsoever after the said date, requires a permit from the Ministers in accordance with this Order; if the Ministers approve such a said increase of holdings, then the provisions of section 3 and all other provisions of this Order, as the case may be, shall apply to every additional change in his holdings.

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- (b) Applicant's permanent place of residence
,and if it is a corporation - its principal place of business:
- (c) The States in which the applicant operates:
- 3. (a) The extent of the applicant's holdings in the Company, at the time the application is being submitted:
- (b) The extent of the applicant's holdings in the Company, in the event his application is approved:
- (c) Particulars of joint appointment; particulars regarding the officers whom the applicant is entitled to appoint:
- (d) Particulars regarding the significant influence of the applicant:
- 4. (a) Particulars of the corporations held by the applicant, the extent of his holdings in them, the particulars of the holdings of each of these in the Company; for each of them, specify as well what is asked in section 2 of this questionnaire (attach a graphic representation of the relationships).
- (a1) Particulars of the applicant's holdings in corporations which are incorporated or registered in a hostile State or which are controlled by a hostile State or by corporations incorporated or registered in a hostile State or by a citizen or resident of a hostile State;
- (b) For corporations only: particulars of every party with holdings in the applicant, whether directly or indirectly,

its Directors and all parties with an interest, or who have significant influence therein as well as the extent of their holdings therein or the offices they hold, particulars of each of their holdings in the Company, particulars of every sister corporation of the applicant, as well as the particulars set out in paragraph (2) for each of them (attach a graphic representation of the relationships).

5. Substantive particulars about the agreement, event or manner that vested or are supposed to vest control or means of control or significant influence in the Company in the applicant, or in respect of the joint appointment, including particulars in respect of the financing of the aforesaid and the parties that participated in it, directly or indirectly, together with agreements and attendant documents.
- 5A. If bank credit was provided: attach the financing agreement and attendant documents; if surety or sources of finance were provided by a party other than the applicant, then full particulars thereof shall be disclosed, and agreements and attendant documents shall be attached.
6. Particulars about the applicant's activities and also - as far as is known to him - about the activities of all those mentioned in section 4 of this questionnaire, in telecommunications and in other areas of communications.
7. If, during the last ten years, the applicant or any of its controlling parties or officers - if the applicant is a corporation - was under investigation or if he was convicted or an indictment was brought against him in Israel or abroad for a criminal offense, other than a traffic offense, then the following must be specified:

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CERTIFICATION

On _____, _____ appeared before me and identified themselves by means of identity cards _____ and after I cautioned them that they must tell the truth and that, if they do not do so, they will be liable to the penalties set by law, they signed the above affidavits in my presence.

I also certify in respect of the corporation, that the signatories are authorized to obligate the corporation in any and all matters connected to this application.

Advocate

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APPENDIX TWO
(Section 5(d))

Power of Attorney

The terms in this power of attorney shall have the same meaning as in the Telecommunications Order (Determination of Essential Service Provided by "Bezeq" The Israel Telecommunication Corp., Limited), 5757-1997 (hereafter: the Order), unless stated otherwise.

1. The applicant' name: (hereafter: the applicant)

2. For an application submitted under section 5(a):
The extent of holdings which, if the permit is cancelled, will become excess holdings:

For an application submitted under section 5(b):
The quantity of the applicant's excess holdings:

(both hereafter: the excess holdings).

3. The applicant hereby appoints and authorizes the Board of Directors (hereafter: Board of Directors) of "Bezeq" The Israel Telecommunication Corp., Limited (hereafter: the Company), to be the applicant's agent and to perform the following acts in his name and in his stead:
 - (a) sell the excess holdings in any way whatsoever, in whatever manner the Board of Directors finds appropriate, including and without derogating from the

generality of the aforesaid, by sale on any stock exchange or system for securities trading in Israel or abroad, including their sale in an off-exchange or off-system transaction;

- (b) to sign in the applicant's name any document the Board of Directors deems efficacious for the sale of the excess holdings, including, without derogating from the generality of the aforesaid - instructions to exchange members or agents, sale agreements and share transfer documents.
- 4. In respect of an application under section 5(b) of the Order: The applicant hereby declares and undertakes toward the Board of Directors and the Company, that on the day this power of attorney is being signed, the excess holdings are free of all charges, attachments, debts, liens or third-party rights of any kind, and that they will remain so until they are sold or until his holding is approved in accordance with the Order.
 - 5. The applicant will indemnify the Board of Directors, the Company, its officers or their agents for any damage, loss or expenditure caused to them, if his representation in respect of the excess holdings is not correct or is not complete.
 - 6. The Board of Directors may at any time transfer its powers under this power of attorney or some of them to another person, in order to carry out the sale of the excess holdings.
 - 7. (a) The applicant hereby agrees that the Board of Directors, the Company, its officers or their agents and any person

who acts on their behalf, shall bear no responsibility toward the applicant for any act or omission in connection with the sale of the excess holdings under this power of attorney, on condition that they did not act maliciously or with intent to realize personal gain.

- (b) (1) Without derogating from the generality of the provisions of subsection (a), the applicant recognizes that the Board of Directors has not undertaken to obtain any given price for the excess holdings, on condition that the Board of Directors does not act maliciously or with intent to realize personal gain, and taking into consideration the quantity of the excess holdings being sold and the time within which the sale must be carried out;
- (2) Without derogating from the generality of the provisions of subsection (a), the Board of Directors may at any time give an order to sell all the excess holdings on any stock exchange, in one lot and without limits on the price, and every such act shall be deemed a reasonable act performed in good faith.

- 8. Whereas the rights of the Company and of the State of Israel are dependant upon this power of attorney, therefore this power of attorney shall be irrevocable and the applicant shall not have the right to revoke or to change it; this power of attorney shall be in effect indefinitely, until all the excess holdings are sold or until their possession is approved in accordance with the Order.

9. In the event that the excess holdings are shares that are not registered in the name of a nominee company: share certificates and share transfer documents signed in blank are attached to this power of attorney in respect of the excess holdings.

Applicant's signature:

Date:

In respect of a corporation - the names and positions of the signatories:

Name:

Position:

Name:

Position:

CERTIFICATION

I hereby verify the above signatures and certify that the signatories are authorized to assume obligations in the applicant's name regarding any and all matters connected to this power of attorney.

Date:

Advocate

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APPENDIX THREE
(Section 14)

1. Switch, including the equipment and know-how of the Defence establishment, which are connected thereto;
2. Cable network;
3. Transmission network;
4. Holdings in subsidiaries;
5. The Company's data and information bases.

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APPENDIX FOUR
(Section 2(a)(2))

Auxilliary Services and Other Services

1. Non-dial service (hot line) to the defense establishment;
2. Laying cables and provision of point to point line service for the defense forces, including lines for siren systems, shelter monitoring, special purpose systems, broadcast lines, distant extensions;
3. The provision and operation of an access network, as defined in the DFL Regulations, for the defense forces;
4. Performance of installation, operation and maintenance jobs of various kinds of network termination point equipment for the defense forces;
5. Receipt of response services (satellite communications) for a limited period;
6. Public address service (recorded announcements), except for individual announcements at the request of a private or business customer;
7. Use of voice mail boxes for security purposes;
8. Locating calling numbers, under lawful authority;
9. Mass call direction services to emergency call centers for a short and limited time (1255);
10. Switch programmed "follow me" services;
11. Abbreviated dialing to emergency services, including the Israel Police, Red Star of David and Fire Departments;
12. Abbreviated dialing to public institutions and municipalities, subject to technological limitations;
13. Maintenance and operation of existing terrestrial satellite communication facilities, including for the purpose of data transmission and video communications, and use of these facilities for the provision of infrastructure services to the defense forces;
14. Maintenance and operation of existing undersea cables, in order to provide service to general licensees for international telecommunication services;

The Telecommunications Order (Determination Of Essential Service Provided by "Bezeq" The Israel Telecommunication Corp., Limited), 5757-1997

15. Telecommunication services to ships at sea through shore facilities;
16. Services for the distribution of radio and television services by satellite;
17. Public pay telephone service (PPT) operated in the public domain.

February 7, 1997

Limor Livnat
Minister of Communications

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**THE TELECOMMUNICATIONS ORDER (DETERMINATION OF
ESSENTIAL SERVICE PROVIDED BY "BEZEQ" THE ISRAEL
TELECOMMUNICATION CORP., LIMITED)(AMMENDMENT), 5764-2004**

By virtue of our authority under sections 4D, 4E1, 4E2 and 59 of the Communications Law (Telecommunications and Broadcasting), 5742-1982¹ (hereafter: the Law), being satisfied that the grounds exist as specified in section 4D(a)(1)(a) and (b) of the Law for the designation of the services specified in section 2 of the Telecommunications Order (Determination Of Essential Service Provided By "Bezeq" The Israel Telecommunication Corp., Limited), 5757-1997² (Hereafter – The Principal Order), as essential services, and after having afforded the Company and all interested parties an opportunity to voice their contentions, and with the approval of the Government and of the Economics Committee of the Knesset in accordance with section 21A of the The Fundamental Law: The Knesset³ and section 2(b) of the Criminal Law, 5733 - 1977⁴, we order as follows:

[Sections 1 – 19 have been incorporated in the Consolidated Translation]

20. Entry Into Force

With the exception of the version of section 13 of the Principal Order, found in section 14 of this Order, this Order will enter into force 30 days from the date on which it is published; section 13 will enter into force 60 days from the publishing date.

21. Transitional Provisions

- (a) Notwithstanding the provisions of section 8 of the Principal Order as amended by section 9 of this Order, the holder of excess holdings in the Company prior to the 1 Sivan 5763 (1 June 2003) may exercise his right to receive a dividend.
- (b) A permit granted by the Minister of Communications pursuant to the Principal Order prior to the date upon which this Order becomes effective, shall be deemed a permit granted by the Ministers pursuant to this Order.

1 Principal Legislation 5742, p. 218; 5763, p. 407.

2 Subsidiary Legislation 5757, p. 396; 5762, p. 33.

3 Principal Legislation 5718, p. 69; 5761, p. 166.

4 Principal Legislation 5733, p. 226; 5754, p. 348.

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- (c) A holder of significant influence in the Company on the date of publication of this Order, which [holding] did not require approval by the Minister of Communication pursuant to the version of the Principal Order in force prior to the date upon which this Order became effective, said influence shall be deemed, if he filed notice in respect thereof, as if it has been approved by the Ministers, however any augmentation of his rights subsequent to such date, requires approval by the Ministers, in accordance with the provisions of this Order, and the provisions of section 3 and all other provisions of the Main Order, as the case may be, shall apply to every additional change in his holdings.

22 Iyar 5764 (13 May 2004)
(HM 3-2728)

Ariel Sharon
Prime Minister

Ehud Ohlmert
Minister of Communications