

**THE COMPANIES LAW**

**A COMPANY LIMITED BY SHARES**

**ARTICLES OF ASSOCIATION OF A PUBLIC COMPANY**

**"BEZEQ" THE ISRAEL  
TELECOMMUNICATION CORP LTD.**

## **DEFINITIONS**

### 1. In these Articles –

#### **Words**

General Meeting	Annual Meeting or Special Meeting of the Shareholders;
Special Meeting	A General Meeting of the Shareholders which is not an Annual Meeting;
Class Meeting	A meeting of holders of a class of shares;
Annual Meeting	A meeting of the Shareholders in accordance with Section 60 of the Companies Law;
Shareholder	As defined in Article 10 of these Articles below;
Registered Shareholder	A Shareholder who is registered in the Shareholder's register in the Company;
Non-registered Shareholder	A Shareholder as defined in Section 117(1) of the Companies Law;
Classified Director	A director who has an appropriate security classification as will be determined by the General Security Service;
The Company or Bezeq	"Bezeq" The Israel Telecommunication Corp. Ltd.;
the Law	The Companies Law, the Companies Ordinance [New Version], 5743-1983, insofar as applicable to the Company, the Securities Law, 5728-1968 and any statute and/or law applicable to the Company at that time;
Exceptional Holdings	As defined in the Telecommunications Order;
Vote by Vote Count	A vote according to a count of the votes of those who vote in accordance with the voting rights prescribed for the shares by virtue of which those Shareholders participating in the meeting.
the Office	The Registered office of the Company as may be from time to time;
month	Gregorian month;
Hardware	Any equipment, installation or instrument used for Telecommunications purposes as defined in the Telecommunications Law, including hardware or computer software by means of which the equipment, installation or instrument is operated;
the Telecommunications Law	The Telecommunications Law (Telecommunications and

	broadcasts), 5742-1982, as amended or as may be amended or as will be in force from time to time, including any law which supersedes it;
the Companies Law	The Companies Law, 5759-1999, as amended or as may be amended or as will be in force from time to time, including any law which supersedes it;
the Securities Law	The Securities Law, 5728-1968;
Security Coordinator	As stated in Appendix E to the License;
Shareholder Registration	A register of the Shareholders which must be conducted in accordance with the Companies Law, and any additional register of Shareholders which the Company elected to conduct in accordance with the provisions of the Companies Law;
Material Shareholder Register	Register of the material Shareholders which must be conducted in accordance with the Companies Law;
Telecommunications Facility	As defined in the Law;
Security Affairs	Any directive and any matter which is the subject of a directive of the Minister of Telecommunications to the Company, relating to national security, whether by virtue of Section 13(b) of the Telecommunications Law or pursuant to the provisions of Appendix E to the License;
the Telecommunications Order	The Telecommunications Order (Determination of an essential service provided by "Bezeq" The Israel Telecommunication Corp. Ltd.), 5757-1997, as amended or as may be amended or as will be in force from time to time, including any legislation which supersedes it;
Terminal Equipment	As defined in the Telecommunications Law;
Simple Majority	A majority of votes of the Shareholders who are present at the General Meeting, who may vote and who voted in it, without taking into account the abstentions;
Special Majority	A majority of at least 75% of the votes of the Shareholders who are present at the General Meeting, who may vote and who voted in it, without taking into account the abstentions;
Purchasing	Including leasing and/or an experimental Telecommunications device and/or upgrading a Telecommunications facility, which includes the maintenance of hardware and/or a Telecommunications facility;
the License	The General License granted to the Company in accordance with the Telecommunications Law, including

	all the changes made in to from time to time, and any license which supersedes it;
Corporation	A company, partnership, cooperative association, association and any other group of persons, whether incorporated or not incorporated;
Software	As defined in the Computers Law, 5755-1995;
these Articles or the Articles	These Articles of Association, as may be modified from time to time;

Everything stated in the singular includes the plural and *vice versa*; everything stated in the masculine includes the feminine and *vice versa*; and everything relating to a person includes a Corporation.

Other than the aforesaid, every word and expression in these Articles shall have the meaning designated for them in the Law, unless it contradicts the written subject matter or its content.

The headings in these Articles are intended for convenience only, and shall not be used in the interpretation of these Articles.

Wherever in these Articles it is stated that their provisions shall apply subject to the provisions of the Law, this means the provisions of any law which are not made contingent, unless the context requires otherwise.

### **THE NAME OF THE COMPANY**

2. The name of the Company is as follows:

- 2.1 In Hebrew – "בזק" החברה הישראלית לתקשורת בע"מ
- 2.2 In English - "BEZEQ" THE ISRAEL TELECOMMUNICATIONS CORP LTD.

### **THE OBJECTIVES OF THE COMPANY**

- 3.1 The objectives of the Company is to engage in any legal activity set out in the Memorandum of the Company.
- 3.2 Without derogating from the aforesaid in Article 3.1, the Company may donate a reasonable amount to a worthy cause, even if the donation is not within the framework of its business considerations.

### **THE LIABILITY OF THE SHAREHOLDERS**

- 4. The liability of a Shareholder in the Company is limited to the par value of the shares he holds which have yet to be paid.

### **CHANGE OF THE ARTICLES**

5. Subject to the provisions of Article 7 and Articles 51-52 below, any change in these Articles shall be made by a resolution adopted at a General Meeting by a Special Majority:
6. Subject to the provisions of the Companies Law, changes in these Articles shall be valid from the date of passing the relevant resolution in the Company or on a later date determined in the resolution.
7. Without derogating from the provisions of Article 52 below, if the Company's shares were divided into classes, no change shall be made in the Articles which prejudices the rights of a class of shares without the approval of a Meeting of that class. For the matter of passing resolutions at a Class Meeting, the provisions of the Companies Law and these Articles relating to change of the Articles at a General Meeting shall apply, *mutatis mutandis*.

### **THE COMPANY'S CAPITAL**

8. The share capital of the Company is NIS 2,825,000,000 (two billion, eight hundred and twenty-five million) divided into 2,825,000,000 ordinary registered shares of a par value of NIS 1 (one) each.
  - 8.1 The rights attached to the various shares in the Company's capital shall be as follows:
    - a. The ordinary shares, and they alone, shall grant their holders the right to receive invitations, to attend and to vote at General Meetings of the Company.
    - b. Each ordinary share entitles its owner who is present at a meeting and who participates in a vote, in person or by proxy, to one vote.
    - c. Wherever in these Articles the shares of the Company are mentioned in relation to a right to receive invitations, attend and vote at General Meetings of the Company, it shall be subject to the rights of the Shareholders listed in this Article 8.1, i.e. the above rights are granted to the ordinary Shareholders only.
  - 8.2 The rights of the shares in a distribution

Subject to the special rights, if any, granted to any shares in connection with a dividend, and subject to the terms of an offering of shares, all the shares issued and fully paid up have equal rights proportionally to their par value, in everything related to a dividend, a distribution of bonus shares and any other distribution (together referred to below in this section as: "Dividend"). If not determined otherwise in the terms of the offering of shares, the shares issued and fully paid up by the date set for entitlement to a Dividend, are entitled to the Dividend irrespective of the date of their issue.

### **SHAREHOLDER REGISTER**

9. The Company shall maintain a Shareholder Register and a Material Shareholder Register in accordance with the provisions of the Companies Law. The Company may maintain an additional Shareholder Register outside Israel, in accordance with the provisions of the Companies Law, and shall conduct any register required according to any law or the provisions of these Articles.
10. A Shareholder in the Company is whoever is registered as the owner of a share in the Shareholder Register, whoever has a share registered with a member of the stock exchange and that share was included among the shares registered in the Shareholder Register of the Company in the name of a nominee company, and whoever holds a share certificate issued by the Company, if issued.
11. A Shareholder who is a trustee shall be registered in the Shareholder Register noting his trusteeship, and he shall be seen as a Shareholder. The Company will not recognize a right of a Shareholder which is based on the rules of equity or a contingent, future or partial right or any other right in connection with a share, other than the right of a trustee who is the registered owner as aforesaid.

### **SHARE CERTIFICATES**

- 12.
- 12.2 A Shareholder who is registered in the Shareholder Register is entitled to receive, upon his request to the Company, without payment, within a period of two months after the allotment or registration of the transfer (unless the terms of the issue determine a longer period), a share certificate/s for all the shares registered in his name, testifying to his ownership of the shares. The share certificate/s will state the number of shares and their serial numbers. In the case of a jointly-held share, the Company shall not be required to issue more than one certificate for all the joint holders, and the delivery of such a certificate to one of the joint holders shall be deemed to be delivered to all of them.
- 12.2 A nominee company may receive from the Company, at its request, within a period of two months after the allotment or registration of the transfer, as the case may be, one certificate testifying to the number and class of shares registered in its name in the Shareholder Register.
- 12.3 The Company will not issue share certificates as aforesaid unless requested to do so by a registered Shareholder or by a nominee company, as the case may be.
- 12.4 Every share certificate shall bear the stamp of the Company and/or the printed name of the Company plus the signature of the Chairman of the Board and the Corporate Secretary, or of two members of the Board of Directors, or as will be determined according to Article 130.
- 12.5 If a share certificate is defaced, destroyed or lost, it can be renewed upon proof and guarantees as the Board of Directors demands, and if it was

defaced – after return of the old certificate, and in any case – after payment of any amount of money set by the Board of Directors from time to time.

13.
  - 13.1 The Company may purchase some of its own shares or securities converted to its shares in accordance with the provisions of the Companies Law. Such resolution directed to all shareholders of the company relatively to the rate of their holdings in the company shall require the approval of the general meeting in a resolution adopted by a simple majority and such resolution directed to part of the shareholders of the company and/or not in an equal manner as stated shall require the approval of the general meeting in a resolution adopted by a special majority.
  - 13.2 If the Company purchased any of its own shares, such share shall not grant any rights whatsoever (hereinafter – "Dormant Share") as long as it is owned by the Company.
14.
  - 14.1 A subsidiary or another Corporation controlled by the Company (in this section – "the Buying Corporation") may purchase shares of the Company or securities which can be converted to or exercised for shares of the Company, in such volume as the Company may make a distribution, provided that the board of directors of the subsidiary or the managers of the Buying Corporation have determined that if the purchase of the shares or securities that can be converted to or exercised for shares of the Company is made by the Company, the purchase was equivalent to a permitted distribution.
  - 14.2 If a share of the Company was purchased by a subsidiary or by the Buying Corporation, the share shall not grant voting rights as long as it is owned by the subsidiary or the Buying Corporation.
  - 14.3 Notwithstanding the provisions of Article 14.1, purchase by a subsidiary or by the Buying Corporation which is not wholly owned by the Company, is a distribution in an amount equal to the amount of the purchase multiplied by the percentage of the rights in the subsidiary's capital or capital of the Buying Corporation which are held by the Company.

### **CALLS FOR PAYMENT**

15. If under the terms of issue of shares no date is set for payment of any part of the price to be paid for them, the Company may call for payment from time to time from the Shareholders in respect of the amounts not yet cleared for the shares they hold, including a premium, and every Shareholder must pay the Company the amounts called for from him – provided that he received 14 (fourteen) days notice of the date and place of the payment. A call for payment can be cancelled or postponed to another date, all as the Board of Directors of the Company decides.
16. A call for payment will be deemed to have been made on the day on which the Board of Directors adopts the resolution approving it.
17. The joint owners of a share shall be liable jointly and severally for payment of the call for payment.

18. In the event that a call for payment on account of a share was not paid on or before the date designated for redemption, the Shareholder or the person to whom it was allotted to must pay interest on the amount of the call for payment, at a rate to be set by the Board of Directors and which will not exceed the accepted interest rate in banks in Israel for current charge accounts, commencing from the designated date and ending on the date of redemption, as well as expenses, should there be any. The Board of Directors may waive all the interest or part of it, as well as the expenses.
19. Any sum which according to the terms of the allotment of a share must be redeemed at the time of the allotment or on a designated date, whether on account of the par value of the share or for a premium, shall be deemed, for the purposes of these Articles, to be a call for payment duly made, the date of payment of which is the date designated for payment, and in case of non-payment the provisions of all the sections of these Articles dealing with unpaid calls for payment shall apply, including the provisions concerning payments of interest, expenses, forfeiture of shares, etc.
20. A Shareholder shall not be entitled to receive a dividend from the Company or to exercise any of his rights as a Shareholder as long as he has not redeemed all the payments which are the subject of calls for payment applicable to his shares from time to time, plus interest and expenses if their payment is required, whether he holds the shares alone or together with another person.
21. The Board of Directors may, if it sees fit, accept from a Shareholder who wishes to pay in advance, all or part of the currencies due on account of his shares, in addition to the amounts actually called for payment. The Board of Directors may also pay such a Shareholder interest on the amounts paid by him in advance as aforesaid, or on that part of them that exceeds the amount which had been called at that time on account of the shares in relation to which the advance payment was made.

### **FORFEITURE OF SHARES**

22. If a Shareholder does not withstand any calls for payment, in whole or in part, by the date prescribed for its clearance, the Board of Directors may, as long as the payment which is the subject of the call or part thereof is unpaid, deliver a notice to a Shareholder and demand that he pay the amount of the unpaid call for payment, plus interest and other expenses incurred as a result of that non-payment.
23. The notice as referred to in Article 22 shall determine a date and place (which is not earlier than thirty days from the date of the notice) for performing the call for payment or part of it plus interest and all expenses incurred as a result of the non-payment. The notice will also state that non-payment on or before the date set and in the designated place, is liable to lead to forfeiture of the shares to which the call for payment relates.
24. If the calls in the above notice are not fulfilled, the Company may, at any time thereafter and before clearance of the payment, including the interest and expenses demanded in the call, declare forfeit any share in relation to which the above notice was given. Forfeiture of shares shall include all the dividends in respect of those shares which were not paid before the forfeiture, even if announced.



25. If a share was forfeited as aforesaid, the holder of the forfeited share shall be given notice of the resolution and the forfeiture, and its date shall be recorded in the Register. However, the validity of the forfeiture shall not be prejudiced due to non-delivery of a notice and/or failure to record it in the Register and/or as a result of flaws in them.
26. The Board of Directors may sell, reallocate or transfer by another manner, any share forfeited in that manner, as it will decide, and determine its value without having to consider any amount redeemed or that is considered to be redeemed relating to the share, in accordance with the Companies law and these Articles.
27. A share forfeited but not yet sold shall be a Dormant Share.
28. The Board of Directors may, at any time prior to the sale, re-allotment or transfer of a forfeited share, cancel the forfeiture on such terms as it decides.
29. A Shareholder whose shares were declared forfeit must pay the Company, despite the forfeiture, all the calls for payment which were not paid for those shares, plus maximum interest up to the date of payment, in exactly the same way as if the shares were not forfeited, and he must fulfill all the claims and demands which the Company could have enforced in relation to the shares, without any deduction or discount for the value of the shares on the date of forfeiture. The Shareholder's undertaking shall end after the Company receives the full consideration for the forfeited shares which the Shareholder undertook to pay, whether allotted at their par value or allotted at a premium, as well as compensation in respect of the expenses and due to the delay in payment of the consideration of the shares in the manner prescribed in these Articles. Forfeitures of shares shall lead at the time of the forfeiture to cancellation of any right in the Company and any claim or demand against it in relation to or by virtue of the share, except those rights and obligations which are excluded from this rule under these Articles or which the Law grants the former Shareholder or imposes upon him.
30. If the consideration received from sale of the forfeited shares exceeds the consideration which the debtor Shareholder undertook to pay, he will be entitled to reimbursement of the partial consideration he paid for them, if any.
31. The provisions of this Section do not derogate from any other relief of the Company toward the debtor Shareholder, nor do they obligate it to sell, allot or transfer the forfeited shares in another manner.

### **LIEN AND PLEDGE OF THE SHARES**

32. The Company shall have a lien and senior pledge on the shares in respect of which the consideration has not been paid in full, which are registered in the name of a Shareholder (whether alone or jointly with others), and on the consideration of their sale, to secure the amounts of money (whether their due date has arrived or has not arrived) in respect of those shares for which payment has already been called or which will be redeemed at a prescribed date in the future (including arrearage interest according to Article 18 above). The Company shall also have a right of lien and pledge on all the shares (except for shares whose price has been cleared in full) registered in the name of a Shareholder, to secure currencies payable to the Company from him or from his property, whether his own debts or debts owed jointly with others. These liens and pledges shall apply also to the dividends declared from

time to time in relation to these shares; the recording of share transfers shall constitute a waiver by the Company of its pledge (if it has a pledge) on the shares, unless it has been agreed otherwise.

33.

33.1 For realization of the lien and/or pledge as described above, the directors may sell the shares to which the lien and/or pledge applies, in the manner they deem appropriate, but such sale shall be made only after the date of payment has arrived and after written notice has been delivered to that Shareholder, or his legal substitutes, concerning the intention of the Company to sell them, and he or they have not paid, cleared or fulfilled the debts or their aforementioned undertakings within 14 (fourteen) days after the date of the notice.

33.2 The net proceeds from any such sale, after payment of the selling expenses, shall be used for clearance of the debts of that Shareholder. If any balance remains after clearance of the debts, that balance shall be paid to the Shareholder, or to his legal substitutes, but subject to exercise of the right of lien and/or pledge to the Company – which is similar to the right of lien and/or pledge which existed on the shares prior to the sale – on that balance, in respect of debts whose due date has not yet arrived and which, notwithstanding the aforesaid, the Board of Directors has decided to clear on their due date.

34. If a sale is made after expropriation or for realization of a pledge, in *bona fide* exercise of the authorities granted above, the Board of Directors may register those shares in the Company's books in the name of the buyer, and the buyer will not be required to verify the propriety of those actions or the use made of the purchase price, and after those shares have been registered in the Shareholder's book in the buyer's name, no person shall appeal the validity of the sale.

35. The provisions of these Articles on the matter of forfeiture, lien, pledge and sale of shares, shall apply to non-payment of any amount which should be paid on a date prescribed in the terms of issue of the share, whether on account of the share or in the form of a premium, as if it were a sum to be paid by virtue of a call for payment and a notice thereof was duly given.

36. The provisions of these Articles on the matter of forfeiture, lien and pledge of shares shall not derogate from any relief which the Company might have against the Shareholder under the law.

### **TRANSFER OF SHARES**

37. Subject to the limitations set forth in Articles 38-41 below, the Company's ordinary shares are transferable, but no share transfer shall be registered in the Company's books unless a deed of share transfer is duly signed by the transferor and the transferee, and the transferor will continue to be deemed to be the registered holder of those shares until the name of the transferee is written in the Shareholder Register as the registered owner of the shares. Any transfer for which registration is requested in the Shareholder Register must be made in writing on the customary form or on the form which will be designated from time to time by the Board of Directors, or another document approved by the Board of Directors, must be duly stamped, and delivered to the Office along with the certificate of the shares being

transferred (if a certificate was issued), and any other evidence required by the Board of Directors in proof of the proprietary right of the transferor.

38. The deed of transfer will be signed by the transferor or on his behalf, and by the transferee or on his behalf.
39. The Company can demand payment to cover the registration expenses of the transfer, in an amount decided upon by the Board of Directors from time to time.
40. Any transfer of shares which are not fully paid up shall be invalid unless approved by the Board of Directors, which may, at its absolute discretion and without giving its reasons, refuse to register such a share transfer.
41. As long as not determined otherwise by the Board of Directors of the Company, the Shareholder Register shall be closed to registration of transfers for a period of fourteen days prior to any Annual Meeting of the Company and on other dates and for such durations as the Board of Directors determines from time to time, provided that the Company's books are not closed for more than thirty days in any year. Without derogating from the aforesaid, the Board of Directors may set aside a determining day so that the Company can determine who from among the Shareholders is entitled to a notice or entitled to vote at a General Meeting, or to receive payment of a dividend or allotment of any rights, or for any other legal purpose.
42. Subject to the provisions of Articles 38-41 above or to the terms of issue of shares of any class that shall be issued in the future, the shares in the capital of the Company which are paid in full shall be transferable without need for the approval of the Board of Directors.

#### **ASSIGNMENT OF SECURITIES (ASSIGNMENT BY VIRTUE OF THE LAW)**

43. Upon the death of a holder of securities of the Company, the Company shall accept a partner or partners who are still living – if the deceased was a partner in the security – and the custodians or administrators of the estate or the heirs of the deceased - if the member held the security alone or was the only one still living among those who held the security jointly - as the sole owners of the rights to the security of the deceased. The aforesaid shall not excuse the estate of a joint owner of the security from any obligation he owed to the Company prior to his death in relation to the security he held jointly.
44. A person who acquires a right to a security by virtue of being a custodian, an administrator of an estate, an heir, a receiver or a trustee in the bankruptcy of a member, or who acquires a right according to the provisions of any law, may, when bringing a jurisdictional order that proves his right, or in absence of such jurisdictional order then proof of his right as the Company demands, be registered as owner of the security or transfer it, subject to the provisions in Articles 39-41 relating to transfer, to another person.
45. A person who acquires a right to a security as a result of its transfer by virtue of the Law, shall be entitled to receive and to give receipts for a dividend or other payments made in connection with the security, but shall not be entitled to receive notices in connection with meetings of the Company or to attend them or vote at

them in connection with that share or to exercise any right of a Shareholder until after he is registered in the Company's books as a Shareholder in relation to that share.

### **CHANGE AND INCREASE OF CAPITAL**

46. The General Meeting may, from time to time, adopt one or more of the following resolutions by a Special Majority:
- 46.1 to consolidate and divide all or part of its share capital into shares of a higher value than the value of the shares at that time;
  - 46.2 to divide all or part of its share capital into shares of a lower value than that stated in the Memorandum or in the Articles;
  - 46.3 to cancel registered share capital which has not yet been allotted or the allotment of which has not yet been agreed upon;
  - 46.4 to increase its registered share capital by creating new shares.
- 47.
- 47.1 Subject to the provisions of any law, the Board of Directors of the Company may resolve to issue redeemable securities (hereinafter – "Redeemable Securities").
  - 47.2 should the Company issue Redeemable Securities it may redeem them, and the limitations of the Companies Law on the matter of preservation and division of the capital shall not apply to the redemption.
  - 47.3 should the Company issue Redeemable Securities it may, subject to the approval of the general meeting by a special majority, attach properties of shares to them, including voting rights and the right to share in profits.
  - 47.4 Redeemable Securities shall not be deemed to be part of the equity of the Company, no matter their designation, unless the right to redeem them was limited in a case of liquidation of the Company to after payment of all the Company's obligations to its creditors at the time of liquidation. If the right to redeem the securities was limited as aforesaid, then the provisions of the Companies Law on the matter of distribution shall apply, notwithstanding the provisions of Articles 47.2.
48. Subject to the provisions of the Securities Law, the new shares shall be in such an amount, divided into shares of such par value, and with such terms, stipulations, rights or limitations as the General Meeting shall direct in its resolution according to article 46 on their creation, and if it made no such determination – as the Board of Directors shall determine, taking into consideration the provisions of the Memorandum of the Company on this matter, if any, and without prejudice to the special rights granted earlier to the existing Shareholders of the Company and subject to the provisions of these Articles, the Company will be able to create shares with preferred rights or inferior or surplus rights, in everything relating to a dividend, participation in assets upon liquidation or in voting, and even without any part in these rights or in connection with other matters, as the Company determines from time to time, provided that the rights attached to the new shares are the same as the

rights attached to the shares of the same class existing in the capital of the Company and subject to the provisions of the Securities Law.

49. Unless determined otherwise under these Articles or in the resolution creating the new shares, any new share capital shall be seen as part of the original share capital and shall be subject to the same regulations relating to the original share capital.
50. For implementation of any resolution referred to in this Section, the Board of Directors may, at its discretion, resolve any difficulty that arises in connection therewith, including handling fractions of shares.

### **CHANGE OF RIGHTS OF A CLASS OF SHARES**

51. Subject to any law, the Company may from time to time, in a resolution adopted by a special majority by the General Meeting, change the rights of any class of shares (unless determined otherwise in the terms of issue of the shares of that class) after obtaining the approval of a meeting of the Shareholders of that class and of the Shareholders of another class which is harmed by the change, in a special Majority of the Shareholders of any such class, who are present at the meeting of the Shareholders of that class.
52. The rights granted to the holders of shares of a certain class which were issued with special rights, shall not be deemed to be changed by the creation or issue of additional shares of the same class, unless stipulated otherwise in the terms of issue of those additional shares.

### **OFFERING OF SHARES AND SECURITIES**

53. The Board of Directors may, subject to article 83.2 below, issue or allot shares and other securities on terms and in a manner decided at its absolute discretion, subject to the provisions of any law.

Allotment and/or issue of shares with preferred rights or variable rights or rights of redemption or other special limited rights or limitations in connection with the distribution of dividends, or in connection with other matters, should and as long as such be allotted and/or issued by the Company shall require the approval of the general meeting by a special resolution.

54. The Company shall not allot a share of which all or part of its consideration is not paid in cash, unless the consideration for the share was set out in a written document.
55. In order to allot shares which have a par value for a consideration which is less than their par value, including bonus shares, the Company must turn part of its profits, as defined in Section 302(b) of the Companies Law, into share capital, from a premium on shares or from any other source included in its equity as appears in its latest financial statements, in an amount equal to the difference between the par value and the consideration.

56. Without derogating from the generality of the aforesaid and subject to the provisions of the Companies Law and these Articles, the Board of Directors may determine that the consideration for the shares will be paid in cash or in kind, including in securities or in any other way, at its discretion, or that the shares will be allotted as bonus shares, or that the shares will be allotted for a consideration equal to their par value or less than their par value or more than their par value, whether in units or in series, and all on the terms and dates set by the Board of Directors.
57. Prior to an offering of new shares, the Board of Directors may determine that the shares, or any part of them, will initially be offered at their par value or in a premium to all the Shareholders who at that time hold shares of any class, proportionally to the par value of their shares in the Company, or it may stipulate other provisions concerning the issue and allotment of the new shares. The aforesaid does not derogate from the authority of the Board of Directors to decide on an offering of new shares as determined in Article 53.
58. The Board of Directors may pay, in connection with an offering of securities, commissions or underwriting fees to any person at the time of signing or agreeing to sign or obtaining signatures or promises to sign for shares or debentures or other securities of the Company. The Board of Directors may also, in any case of an issue of securities of the Company, pay brokerage fees, and all in cash, in Company shares or in other securities offered by the Company, or in any other way, or part in one way and part in another way.

It is clarified that the performance of all said in Articles 46-58 above is subject to no harm caused to the rights of shares of the company unless an approval of the general meeting by a special majority was given.

### **GENERAL MEETINGS**

59. Annual Meetings shall be convened at least once every year, on any date and place in Israel determined by the Board of Directors, but no later than 15 (fifteen) months after the most recent previous General Meeting.
60. The Annual Meeting will discuss the Directors' Report and the financial statements, appoint directors, appoint the auditing accountants, and discuss all the other issues to be discussed or which can be discussed at the Annual Meeting of the Company according to these Articles or according to the Law, or any other subject included on the agenda.
61. The Board of Directors may, if it sees fit, convene a Special Meeting, and it will convene a Special Meeting upon the demand of any one of these:
- 61.1 two directors or one quarter of the serving directors;
  - 61.2 one or more Shareholders holding at least five percent of the issued capital and at least one percent of the voting rights in the Company;
  - 61.3 one or more Shareholders holding at least five percent of the voting rights in the Company.
  - 61.4 The Board of Directors will call the Special Meeting within twenty-one days of submission of the demand to it, for a date to be determined in a notice,

provided that the date of convening is no later than thirty-five days from the date of publication of the notice according to Article 64, unless decided otherwise for the matter of a meeting to which Mark G in Chapter Two of the Companies Law applies.

62. If the Board of Directors does not call a Special Meeting within 21 (twenty-one) days of the date of submission of the demand for the date prescribed in the Companies Law, the person demanding it – and where Shareholders as referred to in Article 61 above are concerned, also some of them who represent more than half of their voting rights – may convene the Special Meeting themselves, but a Special Meeting convened in this way shall not be held after the elapse of three months from the date of submitting the demand, and it shall be convened, as far as possible, in the same way in which meetings are convened by the Board of Directors.

### **CONVENING AND CONDUCTING THE GENERAL MEETING**

- 63.
- 63.1 The Board of Directors shall set the agenda of the General Meeting and shall include also the following:
- (a) subjects due to which the convening of a Special Meeting was demanded as aforesaid in Article 61;
  - (b) a subject requested by one or more Shareholders who hold at least one percent of the voting rights in the General Meeting and who requested that the Board of Directors include a subject on the agenda of a General Meeting to be convened in the future, provided that the subject is appropriate according to law and these articles for discussion by the General Meeting;
  - (c) a request as referred to in sub-article (b) shall be submitted to the Company in writing before notice of convening the General Meeting is given, and the text of the proposed resolution by the shareholder will be attached to it.
- 63.2 At the General Meeting, resolutions will be adopted only on the subjects listed in the agenda.
64. Notice of a General Meeting will be published in accordance with the provisions of the Law and these Articles on the matter of publication of a notice of meetings in a public company which were excluded under Section 69(a) of the Companies Law. Except for such notice of a General Meeting, the company will not deliver a notice of a General Meeting to the registered shareholders, to the non registered shareholders or to the shareholders holding a share certificate.

### **THE DISCUSSION AT GENERAL MEETINGS**

65. No discussion on any subject whatsoever at a General Meeting of the Shareholders shall commence unless a quorum is present at the time when the General Meeting opens for discussion. A quorum is two Shareholders who are present in person or by proxy or who sent the Company a letter of voting stating how they will vote (in

cases where by law, voting can be effected by a letter of voting), and who hold or represent 51% (fifty one percent) or more of the voting power of the Company, within half an hour of the time set for opening the General Meeting.

At every General Meeting, a chairman will be elected for that meeting. The election of the chairman will be at the beginning of the discussion at the meeting, which will be opened by an officer of the Company who is present at the meeting.

- 66.
- 66.1 If within half an hour of the time set for the meeting a quorum is not present, the meeting shall automatically be postponed by one week, to the same day, the same time and the same place, or to another place and/or a later date if stated in the notice of the meeting.
  - 66.2 If a quorum is not present at the postponed meeting after the elapse of half an hour from the appointed time, the meeting shall be held with any number of participants.
  - 66.3 If the General Meeting was convened at the demand of the Shareholders as provided in Article 61 and in Article 62, the postponed meeting shall be held only if at least one or more Shareholders are present who hold at least ten percent of the issued capital and one percent of the voting rights in the Company, or one or more Shareholders who hold at least ten percent of the voting rights in the Company.
  - 66.4 The chairman of the meeting may, with the consent of the General Meeting at which a quorum is present, adjourn it from time to time or from place to place, and it is his duty to do so if the meeting demands it of him, but the adjourned meeting shall discuss only issues which were not completed at the meeting at which the adjournment was decided upon. Notice of the adjournment and of the issues on the agenda of the adjourned meeting, will be given to all the Shareholders.
67. The Company shall take minutes of the discussion at the General Meeting and shall keep them in its registered office for seven years from the date of the meeting, and the minutes shall include the following details:
- 67.1 the names of the Shareholders attending the General Meeting and the number of shares they hold;
  - 67.2 the matters discussed at the General Meeting and the resolutions passed.
68. The announcement of the chairman that a resolution has been passed unanimously or by a certain majority or was defeated, and the minutes signed by the chairman of the meeting, constitute *prima facie* proof of that fact.

### **SHAREHOLDERS' VOTES**

69. A Shareholder who is not registered in the shareholder registration wishing to vote at a General Meeting must prove to the Company his ownership of a share in accordance with the provisions of the Law and these Articles. The proof of ownership of a share shall be submitted to the Company up to 24 hours prior to the time of the General Meeting. Such proof of ownership can be submitted by facsimile.



70. A resolution at a General Meeting shall be passed by a count of the votes and by a Simple Majority, except for matters where a Special Majority is required according to any law and/or under these Articles.
71. If the votes were equal, the chairman of the General Meeting shall not be entitled to an additional or casting vote.
72. If not determined otherwise in these Articles, and subject to and without prejudice to the rights or the limitations from time to time of a special class of shares which comprise part of the capital of the Company, if any, every Shareholder in the Company is entitled to cast one vote for every fully paid up ordinary share he holds.
73. If a Shareholder is legally incompetent, he may vote through his trustees, the recipient of his assets, his natural guardian or other legal guardian, and these persons may vote in person or by proxy.
74. Subject to the provisions of any law, in a case of joint registered owners of a share, each of them may vote at any meeting, whether in person or by proxy, in relation to such a share, as if he were the only person entitled to it. If more than one of the joint owners of a share votes, in person or by proxy, the opinion of the one whose name appears first in the Shareholder Register or with confirmation of his ownership or another document determined by the Board of Directors in relation to the share, will be accepted.
75. A vote can be cast in person or by a proxy. A proxy need not be a Shareholder in the Company. A written ballots will be allowed in accordance with the Companies Regulations (written ballots and position notices) 5766 - 2005.
76. The appointment of a proxy shall be in writing and signed by the appointer or his legal representative who is authorized in writing to do so, and if the appointer is a Corporation, the appointment shall be under the seal of that Corporation (if there is one), and in the absence of a seal – by the person authorized to do so together with the stamp of that Corporation.
77. A vote in accordance with the terms of the appointment shall be legal even if prior to the vote the appointer died or became legally incompetent or cancelled the letter of appointment or transferred the share to which it relates, unless written notice was received at the Office prior to the meeting that the Shareholder has died, became legally incompetent or cancelled the letter of appointment or transferred the share. In any case the appointment shall be deemed void if the appointer arrived and voted in the general meeting.
78. The letter of appointment of a proxy or other certificate (if any such exists) or a copy approved by a notary public, shall be deposited at the Office or in another place or other places in or outside Israel, as the Board of Directors decides from time to time in general, or with regard to a special case before the date set for the meeting or the adjourned meeting at which the person mentioned in such a document intends to vote; otherwise the person mentioned in the document may not vote according to it. The Board of Directors of the Company may, if it sees reasons in justification, approve a vote according to a letter of appointment even if it was not deposited as aforesaid.

79. Every letter of appointment of a proxy (whether for a particular meeting or otherwise) shall be in the accepted text or in a text determined from time to time by the Board of Directors or in another document approved by the chairman of the meeting at his discretion. A Shareholder may give a letter of appointment for a defined period or for an undefined period. The Appointment for voting in the general meetings of the company may be for general meetings, certain meetings, or meetings convened by the time stated in the appointment. The appointment may be a general appointment or an appointment for a specific and special matter and to exclude certain issues regarding to which the proxy can not operate. There will be no validity to any decision regarding issues that were excluded from the appointment and that were adopted by force of the vote of the proxy.
- 80.
- 80.1 A Shareholder who holds more than one share may appoint more than one proxy, provided that the par value of all the shares by virtue of which he appointed the proxies does not exceed the par value of the shares he holds.
- 80.2 Every letter of appointment will state the class and number of shares in respect of which it is given.
- 80.3 The letter of appointment shall be invalid if the Shareholder owns more than one class of shares and the letter of appointment does not state the class of shares in respect of which the letter of appointment is given, unless the total par value of the shares mentioned is the same as the total number of his shares, and in such a case the letter of appointment will be deemed to be one given in respect of all the shares of the Shareholder.
81. A Shareholder shall not be entitled to vote at any meeting of the Shareholders or to be counted among those present at the meeting as long as he owes the Company a payment called in respect of the shares he holds.
82. The provisions of Articles 59 – 81 shall apply, *mutatis mutandis*, to Class Meetings, insofar as the Company is required to hold them.

**83. Resolutions requiring the approval of the general Meeting**

- 83.1 Without derogating from the authority of the general meeting of the Company pursuant to any law and these Articles, and in addition to those authorities, any of the decisions listed below shall require the approval of the general meeting in a resolution adopted by a special majority:
- (1) A change in the objects of the Company;
  - (2) An increase of the registered share capital;
  - (3) A change in the rights attached to the shares;
  - (4) Conversion of the Company from a non-private company into a private company or vice versa;
  - (5) Reorganization of the Company, voluntary winding-up of the Company, settlement or arrangement as provided in Section 350 of the Companies Law, merger, spin-off or receivership.
  - (6) An undertaking for one of the aforementioned activities.

120.2

- 83.2 Without derogating from the authority of the general meeting of the Company pursuant to any law and according to these Articles, and in addition to those

authorities, a decision regarding allotment of the Company's shares or securities convertible into Company shares shall require the approval of the general meeting in a resolution adopted by a simple majority:

### DIRECTORS

84. The number of members of the Board of Directors shall not exceed nineteen (19) and shall not be less than five (5) ("the Minimum Number"), and shall include directors from among the employees and the external directors.

85.

85.1 The members of the Board of Directors of the Company shall be elected by the General Meeting.

(a) The start of the term of office a director (including an external director) shall be from the date of the end of the General Meeting at which he was elected, unless the meeting determined that the term of office will start on a later date.

(b) The duration of the director's term of office shall be:

(1) a director who is not an external director – until the end of the Annual Meeting following the General Meeting at which he was elected;

(2) an external director – according to the Companies Law.

Notwithstanding the foregoing, directors who serve will be entitled at any time and from time to time, to appoint any person who is eligible under sec 224a of the corporate law, as a director (that is not an external director), to fill a place who become vacant for any reason, provided that the number of directors will not exceed the number director at the time of the change. Director, who was appointed in the manner stated above, will serve for a period of no longer then 90 days from his appointment or until the next ordinary general meeting of the shareholders, then he may be elected, what ever come first".

85.2 Directors whose term of office has ended can be re-elected.

85.3 The General Meeting of the Company may –

(a) dismiss each of the members of the Board of Directors (except an external director) according to a resolution adopted by a special majority and to appoint another in their place according to a resolution adopted by a simple majority;

(b) elect another person to the Board of Directors in place of a member of the Board of Directors whose office falls vacant for any reason.

86. Over and above the said according to these Articles, the provisions of the Bezeq Order, as may be from time to time, shall apply for the matter of security classification of directors and the composition of the Board of Directors.

87. The election of external directors to the Company, their number, the terms of their qualification and of their office, the duration and expiration of their office, shall be in accordance with the provisions of the Companies Law.
88. The Board of Directors of the Company may continue to function even if the office of a director falls vacant, as long as the number of directors does not fall below the Minimum Number. Should the number of directors fall below the Minimum Number, the remaining Board of Directors will not be entitled to act, except for the appointment of additional directors as stated in the last paragraph to Regulation 85.1 or for the purpose of convening a General Meeting as soon as possible in order to appoint additional directors. Until an appointment of such bored members will occur, the bored will be entitled to act for an essential purpose in the Company's best interest, but not for any other purpose.
- 89.
- 89.1 A director may resign by delivering a notice to the Board of Directors, to the Chairman of the Board or to the Company, as required in the Companies Law, and the resignation shall take effect on the date of delivery of the notice unless the Law determines otherwise. A director shall give the reasons for his resignation.
- 89.2 Once a notice of resignation is received, the resignation and the reasons for it will be presented to the Board of Directors and recorded in the minutes of the first meeting to convene after the resignation.
90. The office of a director in the Company, except for an external director, shall expire before the end of the term for which he was elected, upon the occurrence of one of these:
- 90.1 he resigned or was dismissed in accordance with the provisions of the Companies Law and/or the provisions of these Articles;
- 90.2 he was convicted of a crime as stated in the Companies Law;
- 90.3 upon the decision of a court, as stated in the Companies Law;
- 90.4 he was declared bankrupt, and if he is a Corporation – it decided on voluntary liquidation or a liquidation order was given against it;
- 90.5 he deceased or was declared incompetent or a guardian was appointed for him.
91. The directors may receive remuneration for fulfilling their function as directors, as well as reasonable expenses incurred in fulfilling their function as directors. In addition, the Company may, subject to the provisions of the Companies Law, pay an additional salary to a director who is not an external director, who was requested to provide the Company with special professional services.
92. The terms of office, pay and reimbursement of reasonable expenses of a member of the Board of Directors, including the terms of his employment as holder of another office or another position in the Company, shall be approved by the Audit Committee of the Board of Directors, provided that the Board of Directors discusses the approval only if the Audit Committee has given its approval. should their approval be

given, the terms of office and pay require also the approval of the General Meeting. The pay can be set as a total consideration or as a consideration for attending meetings.

### **MEETINGS OF THE BOARD OF DIRECTORS AND THEIR MANNER OF CONDUCT**

93. The Board of Directors shall convene for meetings according to the needs of the Company and at least once every three months.
94. The Board of Directors of the Company shall elect one of its members to serve as Chairman of the Board.
  - 94.1 The Chairman of the Board will conduct the meetings of the Board of Directors.
  - 94.2 If the Chairman of the Board is absent from a meeting, the Board of Directors shall elect one of its members to conduct the meeting and to sign the minutes.
95.
  - 95.1 Notice of a meeting of the Board of Directors shall be delivered to all its members at least 72 hours before the date of the meeting.
  - 95.2 A notice according to Article 95.1 shall be delivered to the address of the director given in advance to the Company, and will state the date of the meeting and the place where it will convene, as well as reasonable detail of all the subjects on the agenda.
  - 95.3 Notwithstanding the aforesaid, the Board of Directors may, with the consent of all the directors, convene at notice shorter than 72 hours. Further more the Chairman of the Board may call for an urgent discussion as aforesaid even without the consent of all the Directors up to 4 times per year, or with the consent of 75% of the Directors an unlimited numbers of time.
96. The Board of Directors may hold meetings by means of any communication media, provided that all the participating directors can hear one another simultaneously.
97. The Board of Directors may pass resolutions even without actually convening, provided that all the directors entitled to attend and vote on the matter brought for resolution in the discussion, have agreed not to convene to discuss that matter and signed the resolution (hereinafter - "Written Resolution").
98. If a Written Resolution is passed in accordance with Article 97, minutes of resolutions will be taken, including the decision not to convene, and will be signed by the Chairman of the Board.
99.
  - 99.1 The quorum for opening a meeting of the Board of Directors shall be a majority of the members of the Board of Directors.

- 99.2 If the Board of Directors opens its meeting with the quorum required in Article 99.1, and during the meeting a director leaves, the remaining directors may continue to discuss and decide on matters on the agenda of the Board of Directors even if their number is not the said required number, provided their number is not less than five.
- 99.3 The provisions of Articles 99.1 and 99.2 shall apply to meetings of the Board of Directors at which the agenda includes Security Affairs, provided that the legal quorum at every such meeting consists of Classified Directors only.
100. By voting at of the Board of Directors, each director shall have one vote.
101. Resolutions of the Board of Directors shall be adopted by a Simple Majority; if the votes are equal, the Chairman of the Board or the chairman of the meeting, as the case may be, shall not have an additional vote and the resolution will be deemed defeated.
102. The provisions of this Section shall apply, *mutatis mutandis*, to the committees of the Board of Directors.
- 103.
- 103.1 The Board of Directors of the Company will appoint from among its classified members, a committee for security affairs. The members of the committee will be the Chairman of the Board and Three or four Classified Directors, of whom one is an external director. The Chairman of the Board will serve as Chairman of the Committee for Security Affairs. Notwithstanding the provisions of Article 101, if the vote is deadlocked, the chairman of the Board shall have an additional vote.
- 103.2 Subjects for discussion by the Board of Directors relating to security affairs, will be discussed, subject to Article 103.6 below, in the framework of the Committee for Security Affairs only.
- 103.3 The provisions of Section 29(c) of the Government Companies Law shall not apply to the subjects discussed by the Committee for Security Affairs.
- 103.4 A resolution adopted or an action taken by the Committee for Security Affairs shall be treated as a resolution adopted or an action taken by the Board of Directors.
- 103.5 Discussions and resolutions of the Audit Committee on matters relating to Security Affairs shall be discussed, insofar as they need to be discussed by the Audit Committee, in a composition of 3 Classified Directors from the Audit Committee, of whom one is an external director. These directors may invite to the discussion only members of the Committee for Security Affairs and the internal auditor.
- 103.6 Security Affairs which the Board of Directors must discuss according to Section 112 of the Companies Law, 5759-1999 and which it may not delegate, shall be discussed, insofar as they must be discussed by the Board of Directors, with the participation of Classified Directors only. Directors who are not classified may not participate in that meeting of the Board of

Directors and shall not be entitled to receive information or to read documents relating to the matters discussed there.

103.7 Security Affairs shall be discussed by the Board of Directors, in the Committee for Security Affairs and the Audit Committee after coordination with and the approval of the Security Coordinator, as provided in and in accordance with Appendix E to the License.

103.8

(a) The Company may not transfer information on Security Affairs to a director who is not classified, and a director who is not classified may not receive information on Security Affairs, since the conveying of such information constitutes a violation of any of the provisions of the License or of Section 13(d) of the Telecommunications Law, or that harms the best interests of the Company.

(b) A Classified Director shall not transfer and shall not convey information and documents on Security Affairs, except the transfer of information to the Audit Committee as provided in Articles 103.1 - 103.5 above.

(c) An officer who due to his duty and by virtue of the provisions of these Articles should have received information or should have participated in meetings of Security Affairs and was prevented from doing so due to the provisions of this Article, shall be exempted from his liability for breach of the duty of care towards the Company if the duty of care was violated due to non-participation in a meeting or non-receipt of information.

103.9 Any director may be present and vote at all meetings of the Board of Directors by means of a substitute director whom he appoints, provided that the appointee is qualified to be elected as a director, is not serving as a substitute director in the Company, and if he is serving as substitute for a Classified Director, he has a suitable security classification as determined by the General Security Service. The consent of the directors to such an appointment will be given in writing or at the upcoming meeting of the Board of Directors. Such a substitute director shall serve as the legal representative of the director, whether for one meeting or for a known period of time or until notice of cancellation of the appointment. The appointment of a substitute director shall be made in writing and in advance. The appointment of a substitute director shall not denounce the liability of the director, which shall apply with due attention to the circumstances of the matter, including the circumstances of appointment of the substitute director and the duration of his service.

103.10 Notwithstanding the provisions of these Articles, the General Meeting may not assume, delegate, transfer or exercise authorities vested to another organ of the Company, on Security Affairs.

104. Actions taken in good faith by the Board of Directors or by a committee appointed by the Board of Directors, or by any person acting as a director or as a members of a Board of Directors committee, as the case may be, shall be legal even if it is later discovered that there was a flaw in the appointment of such a director or of a person acting as aforesaid, or that some or all of them were disqualified, exactly as if each

of those persons was duly appointed and was worthy of being a director, as the case requires.

105. The Company shall take minutes of the meetings of the Board of Directors and the committees of the Company and concerning resolutions of the Board of Directors which are adopted without convening. These minutes will state the names of the members that participated in the meeting and will set out all the matters discussed at those meetings and the resolutions adopted. The minutes will be kept for a period of seven years from the date of the meeting. Minutes of a meeting, signed by the chairman of the meeting, will serve as *prima facie* proof of all the facts stated in them.

### **COMMITTEES OF THE BOARD OF DIRECTORS**

106. Without derogating from Article 103 above and Articles 109 – 111 below, the Board of Directors of the Company may set up committees and appoint their members from among the members of the Board of Directors (hereinafter: "Board of Directors Committee"). Persons who are not members of the Board of Directors may also serve on committees whose mandate is to advise the Board of Directors or solely to make recommendations to it.
- 107.
- 107.1 Subject to the provisions of the Companies Law, a resolution adopted or an action taken in a Board of Directors Committee shall be the same as a resolution adopted or an action taken in the Board of Directors, unless the Board of Directors determined at the time of appointing the committee that its authorities would be to make recommendations only.
- 107.2 The Board of Directors will report regularly on the resolutions or recommendations of the Audit Committee, subject to the provisions of Article 103 above dealing with Security Affairs.
108. The meetings of a Board of Directors Committee will be conducted in accordance with the provisions of these Articles concerning meetings of the Board of Directors and their procedure, *mutatis mutandis*, and subject to the special provisions which will be determined by the Board of Directors of the Company in the resolution on the appointment of that committee, and all subject to the provisions of the Law.

### **AUDIT COMMITTEE**

- 109.
- 109.1 The Board of Directors of the Company shall appoint an Audit Committee from among its members, and the provisions of these Articles relating to Board of Directors Committees shall apply to it, *mutatis mutandis*.
- 109.2 The number of members of the Audit Committee shall not be less than three directors who may serve on it in accordance with the provisions of the Law, and all the external directors shall be members of it.
- 110.
- 110.1 The internal auditor of the Company shall receive notices of meetings of the Audit Committee and may attend them.



- 110.2 The internal auditor may request that the chairman of the Audit Committee convene the committee to discuss a subject described in his request, and the chairman of the Audit Committee will convene it within a reasonable time from the date of the request if he sees good reason to do so.
- 110.3 Notice of a meeting of the Audit Committee at which a subject relating to the auditing of the financial statements is on the agenda, shall be submitted to the auditing accountant, who may participate in the meeting.
111. The functions of the Audit Committee shall be as provided in the Companies Law and subject to the provisions of any law, in addition to any other function imposed upon it by the Board of Directors.

### **RECEIVING CREDIT**

112. Without derogating from any authority granted to the Board of Directors according to these Articles or according to law, the Board of Directors shall determine from time to time the credit line which the Company may take and the actions deriving therefrom, from time to time, at its discretion.
113. Article 112 above does not negate the authority of the General Manager or of whoever is so authorized, to decide on the receipt of credit by the Company and to making commitments and providing collateral, within the limits of the credit line determined by the Board of Directors and in accordance with its guidelines.

### **INSURANCE AND INDEMNIFICATION OF OFFICERS**

114. **Indemnification of Officers**

- 114.1 The Company shall not indemnify its Officers except in accordance with the provisions of the law and this Article below.
- 114.2 The Company may indemnify an Officer (as defined in the Companies Law) retroactively (hereinafter: "Indemnity") or make an undertaking in advance to indemnify (hereinafter: "Commitment to Indemnify") an Officer as follows:
- a. A financial liability imposed upon him in favor of another person based on a court ruling, including a court ruling given in a settlement or an arbitrator's ruling approved by a court of law, provided that for the matter of a Commitment to Indemnify, the Commitment to Indemnify is limited to events which, in the opinion of the Board of Directors, can be foreseen in view of the actual activities of the Company at the time of making the Commitment to Indemnify, and to an amount or criterion which the Board of Directors has set as being reasonable in the circumstances of the matter, and the Commitment to Indemnify should note the events which the Board of Directors believes can be foreseen in view of the actual activities of the Company at the time of making the Commitment, and the amount or criterion which the Board of Directors has set as reasonable in the circumstances of the matter.

- b. Reasonable litigation expenses, including attorney's fees, incurred by an Officer due to an investigation or proceeding conducted against him by an authority competent to conduct an investigation or proceeding, and which ended without an indictment being filed against him and without a financial liability being imposed upon him instead of a criminal proceeding, or which ended without an indictment being filed against him but with the imposition of a financial liability instead of a criminal proceeding, in an offense which does not require proof of criminal intent; in this paragraph –  
 The ending of a criminal proceeding without an indictment being filed in a matter in which a criminal investigation was opened – means closing the file according to Section 62 of the Criminal Procedures Law [New Version], 7542-1982 (in this sub-section – "the Criminal Procedures Law"), or a stay of proceedings by the Attorney General according to Section 231 of the Criminal Procedures Law.  
 "Financial liability in lieu of a criminal proceeding" – a financial liability imposed according to the Law as an alternative to a criminal proceeding, including an administrative penalty according to the Administrative Offenses Law, 5746-1985, a fine for an offense defined as a finable offense in the provisions of the Criminal Procedures Law, a monetary sanction or penalty.  
 Indemnity in accordance with the provisions of this sub-section shall apply also to causes which arose prior to the date of application of Amendment Number 3, dated 17.3.05, to the Companies Law.
- c. Reasonable litigation expenses, including attorney's fees. Incurred by an Officer or which he was ordered to pay by a court of law, in a proceeding filed against him by the Company or in its name or by another person, or in a criminal indictment of which he was acquitted, or a criminal indictment in which he was convicted of an offense which does not require proof of criminal intent.

114.3 Notwithstanding the aforesaid, the provisions of these Articles or of a decision of the Company which permits Indemnity to be paid or a Commitment to Indemnify to be made, shall not be valid for the events listed in Article 116.3 below.

114.4 Any resolution regarding indemnification of an officer or an undertaking to indemnify in advance or retrospectively of an officer shall be approved in advance by the general meeting.

115. The provisions of Article 114 shall not be construed as limiting in any way the power of the Company to indemnify any person who is not an Officer, including any employee, agent, adviser or contractor of the Company who is not an Officer, subject to any law.

116. **Insurance of Officers**

116.1 The Company shall not insure the liability of an Officer except in accordance with the provisions of the law and this Article below.

116.2 The Company may enter into a contract insuring the liability of an Officer in the Company due to a liability imposed upon him due to an action he took in his duty as an Officer, in each of the following:

- a. breach of the duty of care towards the Company or towards another person;
- b. breach of fiduciary duty towards the Company, provided that the Officer acted in good faith and had reasonable grounds for assuming that the action would not be harmful to the best interest of the Company;
- c. a financial liability imposed upon him in favor of another person.

116.3 Notwithstanding the aforesaid, a decision of the Company to enter into a contract insuring the liability of an Officer shall not be valid for each of these:

- a. breach of fiduciary duty, except breach of fiduciary duty towards the Company if the Officer acted in good faith and had reasonable grounds for assuming that the action would not be harmful to the Company;
- b. deliberate or reckless breach of the duty of care, unless incurred with negligence only;
- c. an action taken with the intention of unlawful personal gain;
- d. a fine or penalty imposed upon him.

### **TRANSACTIONS WITH INTERESTED PARTIES**

- 117. The provisions of Chapter 5 in Part 6 of the Companies Law shall apply to transactions of the Company with interested parties, including Officers.
- 118. Subject to the provisions of the Companies law, a transaction of the Company with an Officer, who is not a Director, including terms of employment/retirement which is not an extraordinary transaction, shall be approved by the Board of Directors or by a committee consisting of members of the Board of Directors only.

### **GENERAL MANAGER**

- 119. The Company shall appoint a General Manager. The appointment and the determination of the terms of employment of the General Manager shall be made by the Board of Directors of the Company subject to Article 118 above, and it may terminate his office (dismiss him) or replace him at any time and for any reason. The Board of Directors and/or the general meeting may also limit or restrict the authorities of the General Manager.
- 120. The General Manager is responsible for the day-to-day running of the affairs of the Company in the framework of the policy set by the Board of Directors and subject to its directives, and he shall be subject to the supervision of the Board of Directors.
- 121.
  - 121.1 The General Manager shall have all the managerial and executorial authorities not vested by the Law or by or by virtue of these Articles, including by a resolution of the Board of Directors, to another organ of the

Company, except for authorities transferred from him to the Board of Directors in accordance with the provisions of these Articles and the Companies Law, if transferred. The General Manager may, with the approval of the Board of Directors, delegate his authority to another, who is subordinate to him.

121.2 Article 104 shall apply to the actions of the General Manager, *mutatis mutandis*.

### **AUDITING ACCOUNTANT**

122. The Company shall appoint an auditing accountant who will audit its annual financial statements and give its opinion on them (hereinafter: "Auditing").
123. The auditing accountant will be appointed at every Annual Meeting and will serve in that duty until the end of the subsequent Annual Meeting. The Annual Meeting may appoint an auditing accountant to serve in his capacity for a longer period, which shall not exceed the end of the third Annual Meeting after the one at which he was appointed.
124. The provisions of the Companies Law shall apply to the end of the term of service of the auditing accountant.
125. The terms of the agreement of the auditing accountant for the Auditing and for other services to the Company which are not Auditing, shall be determined by the Board of Directors according to the instructions of the General Meeting. The Board of Directors shall report to the Annual Meeting on the terms of the auditing accountant's agreement.

### **APPOINTMENT OF OFFICERS**

126. 126.1 Appointment of officers (as defined in the Companies Law) who are not directors will be approved by the Board of Directors.
- 126.2 The Board of Directors may appoint a secretary for the Company on such terms as it sees fit.

### **INTERNAL AUDITOR**

- 127.
- 127.1 The Board of Directors of the Company shall appoint an internal auditor according to the proposal of the Audit Committee.
- 127.2 The internal auditor will examine, *inter alia*, the intactness of the Company's actions from the aspect of upholding the law and intact business procedure.
- 128.
- 128.1 The organizational superior of the internal auditor shall be the General Manager or the Chairman of the Board, as the Board of Directors of the Company decides.

- 128.2 The internal auditor shall submit to the Board of Directors or to the Audit Committee, as the Board of Directors decides, a proposal for an annual or periodic work plan, and the Board of Directors or the Audit Committee, as the case may be, will approve it, with the changes they please. As long as the Board of Directors has not determined otherwise, the work plan will be submitted to the Board of Directors and approved by it.
- 128.3 The Chairman of the Board or the chairman of the Audit Committee may impose upon the internal auditor additional internal auditing to the work plan, of matters where an urgent need for an examination arises.
- 128.4 The internal auditor shall submit a report on his findings to the Chairman of the Board, the General Manager and the Chairman of the Audit Committee; a report relating to the matters he examined according to Article 128.3 shall be delivered to whoever imposed that audit upon the internal auditor.
129. The term of office of the internal auditor shall not be ended without his consent and he shall not be suspended unless the Board of Directors decides to do so at a meeting in which the quorum is not less than a majority of the members of the Board of Directors, after receipt of the position of the Audit Committee and after the internal auditor has been given reasonable opportunity to state his position before the Board of Directors and before the Audit Committee.

#### **SIGNING IN THE NAME OF THE COMPANY**

130. The right to sign in the name of the Company shall be determined from time to time by the Board of Directors of the Company, provided that the signature is on the printed or stamped name of the Company.

#### **DISTRIBUTION, FUNDS AND CAPITALIZATION OF FUNDS AND EARNINGS**

- 131.
- 131.1 Subject to the provisions of the Companies Law and article 13.1 above, the General Meeting may adopt a resolution on distribution. This resolution will be adopted after the recommendation of the Board of Directors is presented to the General Meeting. The General Meeting may adopt the recommendation or reduce the sum, but not expand it. The General Meeting that decides on distribution may resolve that the distribution will be performed, in whole or in part, in cash or by way of a distribution in kind, including securities or in any other way, at the discretion of the General Meeting.
- 131.2 The General Meeting may, before resolving as provided in Article 131.1, to set aside any such amounts from the earnings as it sees fit, for a general fund or a reserve fund for any needs or purposes, as the General Meeting determines at its discretion.
- 131.3 Until those funds are used, the General Meeting may invest the amounts set aside as aforesaid and the currencies of the funds, in any investment whatsoever, as it sees fit, handle those investments, change them or make other use of them, and it may divide the reserve fund into special funds and use each fund or part of a fund for the purposes of the Company's business,

without holding it separately from the other assets of the Company, and all at the discretion of the General Meeting and the terms it set.

132.

132.1 (a) Subject to the provisions of the Companies Law, the General Meeting may resolve to allot bonus shares and to turn part of the Company's earnings into share capital, as defined in Section 302(b) of the Companies Law, from a premium on shares or from any other source included in its equity, as shown in its latest financial statements, in an amount to be determined by the General Meeting and which shall not be less than the par value of the bonus shares, and it may do so after giving the Board of Directors suitable opportunity to determine, before allotting the bonus shares, that the allotment is not a prohibited distribution.

(b) Bonus shares allotted according to this Article shall be deemed to be fully redeemed.

132.2 The General Meeting which decides on an allotment of bonus shares may resolve that the Company will transfer to a special fund designated for the distribution of bonus shares in the future, an amount which, when converted to share capital, will be sufficient to allot to whoever at that time, for whatever reason, is entitled to purchase shares in the Company (including a right exercisable only on a later date), bonus shares which he would have right to them had he exercised the right to purchase the shares prior to the date determining the right to receive the bonus shares (in this Article – "the Determining Date"). If after the Determining Date the owner of the aforesaid right exercises his right to purchase the shares or some of them, the Company shall allot him bonus shares with a par value and which would have been his due had he exercised, on the eve of the Determining Date, the right to purchase the shares he actually purchased, by converting a suitable part of the aforementioned special fund to share capital.

133. The Company may subject to the approval of the general meeting act to implement a distribution with the approval of a court of law in accordance with the provisions of Section 303 of the Companies Law.

### **ACCOUNTS**

134. The Board of Directors must cause the keeping of accounts and the preparation of financial statements and other reports as required by law.

135. The books of account shall be held in the Office or in another place determined by the Board of Directors, and shall be open at all times for examination by the directors.

136. Subject to the provisions of the Companies Law, the Board of Directors shall decide from time to time, whether for a particular case or a particular kind of cases or whether in general, if, when and where and on what terms or according to which regulations the accounts and books of the Company, or any of them, will be open for examination by the Shareholders.

### **FINANCIAL STATEMENTS**

137. The financial statements of the Company shall be approved by the Board of Directors and signed by whoever is authorized to do so by the Board of Directors and as required by law.

### **COMPANY DOCUMENTS**

- 138.
- 138.1 The Shareholders shall be entitled to read the Company documents listed in Sections 184 – 185 of the Companies Law, upon fulfillment of the conditions stipulated in the law and these articles.
- 138.2 Without derogating from the provisions of Article 138.1 above, the company may resolve to grant a right to read Company documents or any part thereof, including to all or some of the Shareholders, as it sees fit. Such resolution shall require a prior approval of the general meeting and subject to any law.
- 138.3 The Shareholders shall not be entitled to read Company documents or any part thereof unless they have been granted such a right pursuant to the Companies Law or these Articles, or if they were permitted to do so as provided in Article 138.2 above.
- 138.4 The Company may not transfer classified information to a Shareholder or permit classified documents in the Company's possession to be read, if the disclosure contravenes the security directives of Appendix E to the License or Section 13(d) of the Telecommunications Law.
139. Subject to the provisions of any law, any book, account book or register which the Company is required to conduct according to law or these Articles, shall be maintained by technical, mechanical or other means, as the Board of Directors decides.

### **NOTICES**

140. Subject to Article 64 above, a notice or any other document which the Company delivers and which it may or is required to give according to the provisions of these Articles, shall be delivered by the Company to every person, whether by hand, by mail in a letter addressed according to the address of a Shareholder as written in the Shareholder Register or to such address as the Shareholder noted in a letter to the Company as the address for delivery of notices or other documents, or whether by transmittal by facsimile to the number which the Shareholder noted as the number for delivery of notices by facsimile.
141. Any notices which must be given to the Shareholders shall be given, for shares which have joint owners, to the person whose name appears first in the Shareholder Register as owner of that share, and any notice given in this way shall be sufficient notice to the owners of that share.
142. Any Shareholder who is registered in the Shareholder Register by an address, whether in Israel or abroad, shall be entitled to have sent to him at that address, any notice he is entitled to receive according to these Articles, but other than this, no Shareholder who is not a Shareholder registered in the Shareholder Register by an address, shall be entitled to receive any notice from the Company.

143. Any notice or document delivered or sent to a Shareholder in accordance with the provisions of these Articles -shall be deemed to have been duly delivered and sent with regard to shares held by him (whether with regard to shares held by him alone or shares held by him jointly with others), even if that Shareholder was no longer living at that time or was bankrupt (whether the Company knew of his death or bankruptcy or not), until another person is registered in his stead as holder of the shares or as joint holder of them, and such delivery or dispatch shall be deemed to be sufficient delivery or dispatch for heirs, trustees, directors or transferees and any other persons (if any) who have a right in shares.
- 144.
- 144.1 Any notice or document sent by mail shall be deemed to have been delivered on the day after the letter containing the notice or document (a delivery outside of the state of Israel - 7 days) was handed in at a post office, and in proof of delivery it will be sufficient to prove that the letter containing the notice or document was correctly addressed and was handed in at the post office as a letter bearing stamps or as a registered letter bearing stamps.
- 144.2 Any notice or document sent by facsimile shall be deemed to have been delivered on the day on which it was sent, and in proof of delivery it will be sufficient to submit the confirmation of delivery sheet from the facsimile machine of the sender.
- 144.3 Subject to Article 64 above, Non-delivery of notice of a meeting or other notice to any Shareholder, whether by hand by mail and by facsimile, shall not be cause for cancellation of a resolution adopted at that meeting or for cancellation of proceedings based on that notice.
- 144.4 Any record made routinely in a book of the Company shall be deemed to be *prima facie* proof of the dispatch, as recorded in that book.
145. Where it is necessary to give a particular number of days advance notice or a notice which is valid for any period, the date of delivery shall be taken into account when counting the number of days or the period.

#### **RIGHTS UPON LIQUIDATION**

146. Upon liquidation of the Company, the liquidator may, upon the resolution of the general meeting by a special majority distribute its surplus assets over all its liabilities, subject to the rights granted to any class of shares issued at that time, if any, among the ordinary Shareholders, proportionally to the amount paid up or credited as paid up on the par value of those shares, without taking into account a premium paid on the shares.

#### **PURCHASING**

147. The Company shall act so that any Purchasing and/or installation of Hardware in the Telecommunications Facilities of the Company, except Terminal Equipment, shall be effected in full compliance with the instructions given and/or which will be given



to the Company from time to time pursuant to Section 13 of the Telecommunications Law and in the manner prescribed there.

148. A change, amendment or cancellation, directly or indirectly, of the provisions of Articles 99.3, 103, 138.4, 147, 148, and in the definitions of "Classified Director", "Exceptional Holdings", "Hardware", "Software", "Telecommunications Facility", "Terminal Equipment", "Purchasing", "Security Coordinator" and "Security Affairs", requires the prior written approval of the Minister of Telecommunications.

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