

## **Chapter Four – The Board of Directors**

### **1. The Authority of the Board of Directors**

1.1. The authority of the Board of Directors is as specified both in the Law and in the provisions of these Articles of Association.

1.2. Signature Authority and Powers of Attorney

1.2.1. The Board of Directors shall determine the person(s) with authority to sign for and on behalf of the Company with respect to various issues. The signature of such person(s), appointed from time to time by the Board of Directors, whether generally or for a specific issue, whether alone or together with others, or together with the seal or the stamp of the Company or its printed name, shall bind the Company, subject to the terms and conditions set by the Board of Directors.

1.2.2. The Board of Directors may set separate signature authorities with respect to different issues and different amounts.

1.2.3. The Board of Directors may, from time to time, authorize any person to be the representative of the Company with respect to those objectives and subject to those conditions and for that time period, as the Board of Directors deems fit. The Board of Directors may also grant any representative the authority to delegate any or all of the authorities, powers and discretion given to the Board of Directors.

1.3. The Registered Office of the Company

The Board of Directors shall fix the location of the Office of the Company.

2. **The Appointment of Directors and the Termination of Their Office**

2.1. The Number of Directors

The number of Directors in the Company shall not be less than seven (7) or more than seventeen (17).

2.2. The Identity of a Director

2.2.1. A member of the Board of Directors may hold another position with the Company.

2.2.2. A corporation may serve as a Director in the Company, subject to the provisions of Article 23.6 below.

2.2.3. For as long as any individual or an entity which is an Interested Party in the Company is also an Interested Party in Cellcom (Israel) Ltd. (hereinafter "Cellcom"), such Interested Party or an Office Holder of an Interested Party in Cellcom or an Office Holder of any entity controlled by an Interested Party in Cellcom (other than Elron Electronic Industries Ltd ("Elron") or an entity controlled by Elron) will not serve as an Office Holder of the Company, and no Interested Party in Cellcom or any entity controlled by such Interested Party, may appoint more than two Directors to the Board of Directors of the Company. For the purposes of this Article, the terms "control", "Interested Party" and "Office Holder" shall bear the same meaning as in, and shall be interpreted in accordance with, the License.

2.2.4. The Board of Directors shall include independent and/or external Directors required to comply with the applicable requirements of any Law, the Nasdaq Stock Market, the London Stock Exchange and any other investment exchange on which the securities of the Company are or may become quoted or listed. The requirements of the Companies Law applicable to an external Director (*Dahatz*) shall prevail over the provisions of these Articles of Association to the extent these Articles of Associations are inconsistent with the Companies Law, and shall apply to the extent these Articles of Associations are silent.

2.2.5. At least 10% of the members of the Board of Directors of the Company shall be comprised of Qualified Israeli Directors.

Notwithstanding the above, if the board is comprised of up to 14 members, one Qualified Israeli Director shall be sufficient, and if the board is comprised of between 15 and 24 members, two Qualified Israeli Directors shall be sufficient.

2.2.6. Notwithstanding any other provision of these Articles, a Qualified Israeli Director shall be appointed as a member of the Board of Directors, and may be removed from such office, only upon written notice to the Company Secretary of his or her appointment or removal by the Founding Israeli Shareholders holding Minimum Israeli Holding Shares. For purposes of this section, a notice signed by at least two of the Founding Israeli Shareholders who are the record holders of at least 50% of Minimum Israeli Holding Shares shall be deemed to be sufficient notice on behalf of all holders of Minimum Israeli Holding Shares.

### 2.3. The Election of Directors and their Terms of Office

2.3.1. The Directors shall be elected at each Annual Meeting and shall serve in office until the close of the next Annual Meeting, unless their office becomes vacant earlier in accordance with the provisions of these Articles of Association. Each Director of the Company shall be elected by an Ordinary Majority at the Annual Meeting; provided, however, that external Directors shall be elected in accordance with applicable law and/or any relevant stock exchange rule applicable to the Company. The elected Directors shall commence their terms from the close of the Annual Meeting at which they are elected, unless a later date is stated in the resolution with respect to their appointment. Election of Directors shall be not conducted by separate vote on each candidate, unless so determined by the Board of Directors.

2.3.2. In each Annual Meeting, the Directors that were elected in the previous Annual Meeting, and thereafter, in any Extraordinary Meeting shall be deemed to have resigned from their office. A resigning Director may be reelected.

2.3.3. Notwithstanding the other provisions of these Articles of Association and without derogating from Article 23.4, an Extraordinary Meeting of the Company may elect any person as a Director, to fill an office which became vacant, or to serve as an additional member to the then existing Board of Directors, or to serve as an external Director (*Dahatz*) or an independent Director and also in any event in which the number of the members of the Board of Directors is less than

the minimum set in the Articles of Association provided that the maximum number of Directors permitted under Article 23.1 is not exceeded. Any Director elected in such manner (excluding an external Director (*Dahatz*)) shall serve in office until the coming Annual Meeting, unless his office becomes vacant earlier in accordance with the provisions of these Articles of Association and may be reelected.

2.3.4. An elected external Director (*Dahatz*) shall commence his term from the close of the General Meeting at which he is elected, unless a later date is stated in the resolution with respect to his appointment, and shall serve for the period in accordance with the provisions of the Companies Law, notwithstanding Article 23.3 above, unless his office becomes vacant earlier in accordance with the provisions of the Companies Law. A General Meeting may reelect an external Director (*Dahatz*) for additional term(s) as permitted by the Companies Law.

2.4. The election of Directors by the Board of Directors

The Board of Directors shall have the right, at all times, upon approval of at least a simple majority of the Directors of the Company, to elect any person as a Director, to fill an office which became vacant, or to serve as an additional member to the then existing Board of Directors provided that the maximum number of Directors permitted under Article 23.1 is not exceeded. Any Director elected in such manner shall serve in office until the coming Annual Meeting and may be reelected.

2.5. Alternate Director

Any Director may, from time to time, appoint for himself an alternate Director (hereinafter: the "Alternate Director"), dismiss such Alternate Director and also appoint another Alternate Director instead of any Alternate Director, whose office becomes vacant, due to whatever cause, whether for a certain meeting or generally. Anyone who is not qualified to be appointed as a Director and also anyone serving as a Director or as an existing Alternate Director shall not serve as an Alternate Director.

2.6. Representatives of a Director that is a Corporation

A Director that is a corporation shall appoint an individual, qualified to be appointed as a Director in the Company, in order to serve on its behalf, either generally or for a certain meeting, or for a certain period of time and the said corporation may also dismiss that individual and appoint another in his stead (hereinafter: "Representatives of a Director").

2.7. Manner of Appointment or Dismissal of an Alternate Director or a Representative of a Director that is a Corporation

Any appointment or dismissal of Representatives of Directors, when such Directors are corporations, or of Alternate Directors, shall be made by means of a notice in writing to the corporate secretary, signed by the appointing or dismissing body and shall become valid upon the date indicated in the appointment or dismissal notice or upon the date of its delivery to the corporate secretary, whichever is the later.

2.8. Miscellaneous Provisions with Respect to Alternate Directors and Representatives of Directors that are Corporations.

2.8.1. Any person, whether he is a Director or not, may serve as the representative of a Director, and any one person may serve as the representative of several Directors.

2.8.2. The Representative of a Director – in addition to his own vote, if he is serving as a Director – shall have a number of votes corresponding to the number of Directors represented by him.

2.8.3. An Alternate Director and the Representative of a Director shall have all the authority of the Director for whom he is serving as an Alternate Director or as a representative, with the exception of the authority to vote in meetings at which the Director is present in person.

2.8.4. The office of an Alternate Director or a representative of a Director shall automatically become vacant, if the office of the Director for whom he is serving as an Alternate Director or as a representative becomes vacant.

2.9. Termination of the Term of a Director

The term of a Director shall be terminated in any of the following cases:

2.9.1. If he resigns from his office by way of a signed letter, filed with the corporate secretary at the Company's Office;

2.9.2. If he is declared bankrupt or if he reaches a settlement with his creditors within the framework of bankruptcy procedures;

2.9.3. If he is declared by an appropriate court to be incapacitated;

2.9.4. Upon his death and, in the event of a corporation, if a resolution has been adopted for its voluntary liquidation or a liquidation order has been issued to it;

2.9.5. If he is removed from his office by way of a resolution, adopted by the General Meeting of the Company, even prior to the completion of his term of office;

2.9.6. If he is convicted of a crime, as stated in Section 232 of the Companies Law;

2.9.7. If his term is terminated by the Board of Directors in accordance with the provisions of Section 231 of the Companies Law; or

23.9.8 If his term is terminated by the Board of Directors in case the Board of Directors concludes that the office of such dDirector is in violation to the provisions of the License or any other telecommunications license granted to the Company or to any of its subsidiaries or to any other entity it controls.”

2.10. The Implications on the Board of Directors of the Termination of the Term of a Director.

In the event that an office of a Director becomes vacant, the remaining Directors are entitled to continue operating, so long as their number has not decreased below the minimum number of Directors set forth in Article 23.1.

In the event that the number of Directors decreased below that minimum number, the remaining Directors shall be entitled to act solely for the convening of a General Meeting of the Company for the purpose of electing additional Directors to the Board of Directors.

2.11. Compensation of Members of the Board of Directors

Members of the Board of Directors who do not hold other positions in the Company and who are not external Directors shall not receive any compensation from the Company, unless such compensation is approved by the General Meeting and according to the amount determined by the General Meeting, subject to the provisions of the Law.

The compensation of the Directors may be fixed, as an all-inclusive payment or as payment for participation in meetings or in any combination thereof.

The Company may reimburse expenses incurred by a Director in connection with the performance of his office, to the extent provided in a resolution of the Board of Directors.

### 3. **Actions of Directors**

3.1. Convening Meetings of the Board of Directors

- 3.1.1. The chairman of the Board of Directors may convene a meeting of the Board of Directors at any time.
- 3.1.2. The chairman of the Board of Directors shall convene a meeting of the Board of Directors at least four times a year, in a manner allowing the Company to fulfil the provisions of the Law with respect to the publication of Financial Statements and reporting to the public.
- 3.1.3. The chairman of the Board of Directors shall convene a meeting of the Board of Directors on a specific issue if requested by at least two Directors or one Director, if he is an external Director, within no more than 14 days from the date of the request.
- 3.1.4. The chairman of the Board of Directors shall act forthwith for the convening of a meeting of the Board of Directors, within 14 days from the time that a Director in the Company has informed him of a matter related to the Company in which there is an apparent violation of the Law or a breach of proper management of the business, or from the time that the auditor of the Company has reported to him that he had become aware of material flaws in the accounting oversight of the Company.
- 3.1.5. In the event that a notice or a report of the General Manager requires an action of the Board of Directors, the chairman of the Board of Directors shall forthwith convene a meeting of the Board of Directors, which should be held within 14 days from the date of the notice or the report.

### 3.2. Convening of a Meeting of the Board of Directors

- 3.2.1. Any notice with respect to a meeting of the Board of Directors may be given in writing, so long as the notice is given at least 14 days prior to the date fixed for the meeting, unless all the members of the Board of Directors or their Alternate Directors or their representatives agree on a shorter time period. A notice, as stated, shall be delivered in writing or transmitted via facsimile or E-mail or through another means of communication, to the address or facsimile number or to the E-mail address or to an address where messages can be delivered through other means of communication, as the case may be, as the Director informed the corporate secretary, upon his appointment, or by means of a written notice to the corporate secretary thereafter.

A notice, which was delivered or transmitted, as provided in this Article, shall be deemed to be personally delivered to the Director on its delivery date.

3.2.2. In the event that a Director appointed an Alternate Director or a representative, the notice shall be delivered to the Alternate Director or the representative, unless the Director instructed that the notice should be delivered to him as well.

3.2.3. The notice shall include the venue, date and time of the meeting of the Board of Directors, arrangements with respect to the manner of management of the meeting (in cases where telecommunications are used), the details of the issues on its agenda and any other material that the chairman of the Board of Directors requests be attached to the summoning notice with respect to the meeting.

### 3.3. The Agenda of Meetings of Board of Directors

The agenda of meetings of the Board of Directors shall be determined by the chairman of the Board of Directors and shall include the following issues:

3.3.1. Issues determined by the chairman of the Board of Directors.

3.3.2. Issues for which the meeting is convened in accordance with Article 24.1 above.

3.3.3. Any issue requested by a Director or by the General Manager within a reasonable time prior to the date of the meeting of the Board of Directors (taking into account the nature of the issue).

### 3.4. Quorum

The quorum for meetings of the Board of Directors shall be a majority of the Directors, which must include one external Director.

### 3.5. Conducting a Meeting Through Means of Communication

The Board of Directors may conduct a meeting of the Board of Directors through the use of any means of communications, provided all of the participating Directors can hear each other simultaneously.

### 3.6. Voting in the Board of Directors

Subject to Article 23.4 and Article 44, Issues presented at meetings of the Board of Directors shall be decided upon by a majority of the votes of the Directors present (or participating, in the case of a vote through a permitted means of communications) and voting, subject to the provisions of Article 23.8 above, with

respect to Alternate Directors and representatives of Directors that are corporations.

Each Director shall have a single vote.

3.7. **Written Resolutions**

A written resolution signed by all the Directors shall be deemed as a resolution lawfully adopted at a meeting of the Board of Directors. Such a resolution may be made in several copies of the same Document, each of them signed by one Director or by several Directors. Such a resolution may be adopted by signature of only a portion of the Directors, if all of the Directors who have not signed the resolution were not entitled to participate in the discussion and to vote on such resolution in accordance with any Law whatsoever, so long as they confirm in writing that they are aware of the intention to adopt such a resolution.

3.8. **Resolutions Approved by Means of Communications**

A resolution approved by use of a means of communications by the Directors shall be deemed to be a resolution lawfully adopted at a meeting of the Board of Directors, and the provisions of Article 24.6 above shall apply to the said resolution.

3.9. **The Validity of Actions of the Directors**

All actions taken in good faith in a meeting of the Board of Directors or by a committee of the Board of Directors or by any person acting as a Director shall be valid, even if it subsequently transpires that there was a flaw in the appointment of such a Director or person acting as such, or if any of them were disqualified, as if any such person was lawfully appointed and was qualified to serve as a Director.

3.10. **Minutes of Meetings of the Board of Directors**

The chairman of the Board of Directors shall cause that the minutes of meetings of the Board of Directors shall be properly maintained and shall include the following:

- 3.10.1. Names of those present and participating at each meeting.
- 3.10.2. All the resolutions and particulars of the discussion of said meetings.

Any such minutes signed by the chairman of the Board of Directors presiding over that meeting or by the chairman of the Board of Directors at the following meeting, shall be viewed as prima facie evidence of the issues recorded in the minutes.

4. **Committees of the Board of Directors**

- 4.1. Subject to the provisions of the Companies Law, the Board of Directors may delegate its authorities or any part of them to committees, as they deem fit, and they may from time to time cancel the delegation of such an authority. Any such committee, while utilizing an authority as stated, is obligated to fulfil all of the instructions given to it from time to time by the Board of Directors.
- 4.2. Subject to the provisions of the Companies Law, each committee of the Board of Directors shall consist of at least two Directors, and it may include members who are not Directors, with the exception of the audit committee which shall consist of at least three (3) Directors, and all of the external Directors of the Company shall be members of it.
- 4.3. The provisions with respect to meetings of the Board of Directors shall apply to the meetings and discussions of each committee of the Board of Directors, with the appropriate changes, provided that no other terms are set by the Board of Directors in this matter, and provided that the lawful quorum for the meetings of the committee, as stated, shall be at least a majority of the members of the committee, unless otherwise required by Law.

25A. **Committee for Security Matters**

- 25A.1. Notwithstanding any other provision in these Articles, the Board of Directors shall appoint from among its members who have security clearance and security compatibility to be determined by the General Security Service (“Directors with Clearance”) a committee to be designated the “Committee for Security Matters”. The members of the Committee for Security Matters shall include at least four (4) Directors with Clearance including at least one external director. Subject to section 25A.2 below, security matters shall be considered only in the context of the Committee for Security Matters. Any decision of, or action by the Committee for Security Matters shall have the same effect as if it had been made or taken by the Board of Directors. The Board of Directors shall consider a security matter only if required pursuant to section 25A.2 below, and subject to the terms of that section. For purposes of this section 25A, “security matters” shall be defined in the same manner as defined in the Bezeq Order (Determination of Essential Service Provided by Bezeq-The Israeli Telecommunications Company Ltd.), 1997, as of March 9, 2005.
- 25A.2. Security matters which the audit committee or board of directors shall be required to consider in accordance with the mandatory rules of the Companies Law or other Law applicable to the Company, shall be considered to the extent necessary only by Directors with Clearance. Other Directors shall not be entitled to participate in meetings of the audit committee or board of directors dealing with security matters, or to receive information or documents related to these matters. A quorum for these meetings shall include only Directors with Clearance.
- 25A.3. Any director or officer of the Company who would otherwise be required to receive information or participate in meetings by virtue of his or her position or these Articles or any Law, but who is prevented from doing so by the provisions

of this Article 25A, will be released from any liability for any claim of breach of duty of care to the Company which results from her or his inability to receive information or participate in meetings, and the Company shall indemnify any such director or officer and hold her or him harmless to the maximum extent permitted by law for any injury or damage she or he incurs as a result of the inability to receive such information or participate in such meetings.

25A.4. The shareholders at a general meeting shall not be entitled to assume, delegate, transfer or exercise any of the authorities granted to any other corporate body in the Company with respect to security matters.

25A.5. (1) The Minister of Communications shall be entitled to appoint an observer (the "Security Observer") to all meetings of the board of directors and its committees. The Security Observer shall have the security clearance and security compatibility to be determined by the General Security Service.

(2) The Security Observer shall be an employee of the State of Israel qualified to serve as a director pursuant to Chapter C of the Government Companies Law, 1975.

(3) In addition to any other obligations under Law, the Security Observer shall be bound to preserve the confidentiality of [information relating to] the Company, except as required to fulfill his responsibilities as an observer. The Security Observer will not act as an observer or in any other position at a competitor of the Company, and will avoid a conflict between his position as an observer and the interests of the Company. The Security Observer shall undertake not to serve as an observer or officer or director, and not serve in any other capacity or be employed, directly or indirectly, by any entity competing with the Company or in a position of conflict of interest with the Company during the period of his service as the Security Observer and for two years after termination of such period.

(4) Notices of meetings of the board of directors and its committees, including of the Committee for Security Matters, shall be delivered to the Security Observer, and he shall be entitled to participate in each such meeting.

(5) The Security Observer shall have the same right to obtain information from the Company as that of a Director. If the Company believes that specific information requested is commercially sensitive and not required by the Security Observer for fulfillment of his duties, the Company may delay delivery of the information upon notice to the Security Observer. If the Security Observer still believes the information is needed for his duties, the matter shall be brought for decision to the head of the General Security Service.

(6) If the Security Observer believes that the Company has made a decision, or is about to make a decision, in a security matter, which conflicts with a provision of the License or section 13 of the Communications Law (Telecommunications and Broadcasting), 1982 or section 11 of the General Security Service Law, 2002, he shall promptly notify the Company in writing. Said notice shall be delivered to

the chairman of the board of directors and chairman of the Committee for Security Matters and shall provide an appropriate defined period of time, in light of the circumstances, in which the Company shall be required to correct the violation or change the decision, to the extent possible."

25B. **Approval of Certain Related Party Transactions**

A transaction of the type described in Section 270(1) of the Companies Law i.e. a transaction with directors or officers or a transaction in which an officer or a director has a personal interest, provided that such transactions are in the Company's ordinary course of business, are on market terms and are not likely to substantially influence the profitability of the Company, its assets or its liabilities, may be approved by the Audit Committee, without the need for Board of Director's approval, or by the Board of Directors, subject to any applicable Law and any relevant stock exchange rule applicable to the Company.

5. **Chairman of the Board of Directors**

5.1. Appointment

5.1.1. The Board of Directors shall choose one of its members to serve as the chairman of the Board of Directors, and shall set in the appointing resolution the term for his service.

5.1.2. Unless otherwise provided in the appointing resolution, the chairman of the Board of Directors shall be chosen each and every calendar year at the first meeting of the Board of Directors held after the General Meeting in which Directors were appointed to the Company.

5.1.3. In the event that the chairman of the Board of Directors ceases to serve as a Director in the Company, the Board of Directors in its first meeting held thereafter shall choose one of its members to serve as a new chairman who will serve in his position for the term set in the appointing resolution, and if no period is set, until the appointment of a chairman, as provided in this Article.

5.1.4. In the event that the chairman of the Board of Directors is absent from a meeting, the Board of Directors shall choose one of the Directors present to preside at the meeting.

5.2. Authority

5.2.1. The chairman of the Board of Directors shall preside over meetings of the Board of Directors.

5.2.2. In the event of a deadlock vote, the chairman of the Board of Directors shall not have an additional or casting vote.

5.2.3. The chairman of the Board of Directors is entitled, at all times, at his initiative or pursuant to a resolution of the Board of Directors, to require reports from the General Manager in matters pertaining to the business affairs of the Company.

5.3. Reservations with Regard to Actions of the Chairman of the Board of Directors

5.3.1. The chairman of the Board of Directors shall not serve as the General Manager of the Company, unless he is appointed in accordance with the provisions of Article 27.2 below.

5.3.2. The chairman of the Board of Directors shall not serve as a member of the Audit Committee.

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