



## **Bezeq - The Israel Telecommunication Corp. Ltd. ("the Company" or "Bezeq")**

December 12, 2020

The Israeli Securities Authority

The Tel Aviv Stock Exchange

### **Re – Notice of Extraordinary General Meeting of the Company's Shareholders**

In accordance with the Companies Law, 5759-1999 ("**the Companies Law**"); the Securities Regulations (Periodic and Immediate Reports) 5730-1970 ("**the Reports Regulations**"); the Companies Regulations (Notice and Announcement of General Meeting and Class Meeting in Public Companies and Addition of an Issue to the Agenda) 5760-2000, the Companies Regulations (Written Votes and Position Papers) 5766-2005 ("**Written Vote Regulations**"), and further to the resolutions of the compensation committee dated December 9, 2020, and the resolutions of the Company's board of directors dated December 10, 2020, the Company hereby announces the convening of an extraordinary general meeting of the Company's shareholders ("**the General Meeting**") on Monday, January 18, 2021, at 11:00, at the Company's offices, 7 Hamanor Street, Holon, 5<sup>th</sup> floor ("**the Company's Offices**").

#### **1. Summary of the issues and proposed regulations on the agenda of the General Meeting:**

- 1.1 Approval of the increase of the Company's registered share capital by 24,485,753 ordinary shares of NIS 1 par value each of the Company ("**the Ordinary Shares**"), and amendment of the wording of Article 8 of the Company's Articles of Association and Section 2B of the Company's Memorandum of Association.
- 1.2 Approval of the terms of tenure and employment of Mr. Gil Sharon as chairman of the board of directors of the Company, which will apply retroactively as of August 27, 2020, the date of commencement of his term of office. The approval of this resolution is subject to the General Meeting's approval of the amendments and revisions to the Company's compensation policy as set forth in sections 1.4 and 2.4 below.
- 1.3 Approval of allotment to Mr. Dudu Mizrahi, CEO of the Company, of 9,000,000 registered options, which are not listed on the Tel Aviv Stock Exchange Ltd. ("**the Options**" and "**the TASE**", as the case may be), exercisable into up to 9,000,000 ordinary shares, in accordance with the equity-based compensation plan (2020) that was approved by the Company's compensation committee and board of directors on December 9 and 10, 2020, respectively ("**the equity-based Compensation Plan**"). The approval of this resolution is subject to the General Meeting's approval of the amendments and revisions to the Company's equity-based compensation plan as set forth in sections 1.4 and 2.4 below.

- 1.4 Approval of amendments and revisions to the Company's compensation policy within its meaning in Section 267(A)A of the Companies Law, as approved by the General Meeting on May 23, 2019 for a three (3) year period, and amended on February 6, 2020 and February 14, 2020.

## **2. A summary of the proposed resolutions and the terms thereof :**

### **2.1 Approval of the increase of the Company's registered capital (the proposed resolution in section 1.1 of the agenda)**

- 2.1.1 On December 10, 2020, after adopting the compensation committee's recommendation dated December 9, 2020, the Company's board of directors approved the equity-based compensation plan by virtue thereof for allotment of options exercisable into up to 84,000,000 ordinary shares, representing 2.94% of the Company's fully diluted issued and paid up share capital following the said exercise of options.

The aforesaid approval includes an allotment of up to 58,735,000 options to up to 117 officers, executives and senior employees of the Company and its subsidiaries, including the chairman of the Company's board of directors and the CEO of the Company, for which an outline and a material private offering report will be published close to the date of this report in accordance with the Securities Regulations (Details of an Outline of an Offer of Securities to Employees), 2000 and Securities Regulations (Private Offering of Securities by a Listed Company), 2000 ("the Outline").

- 2.1.2 Following the approval of the equity-based compensation plan, and in order to enable the future allotment of capital compensation up to the maximum permitted for allotment by virtue of the plan as stated in section 2.1.1 above<sup>1</sup>, it is proposed to approve an increase in the Company's registered share capital by 24,485,753 additional ordinary shares, so that it will amount to NIS 2,849,485,753 divided into 2,849,485,753 ordinary shares, and the amendment of the wording of Article 8 of the Company's Articles of Association and section 2B of the Company's Memorandum of Association, respectively.

- 2.1.3 The Proposed Resolution: "To approve the increase of the Company's registered share capital by 24,485,753 additional ordinary shares, so that it will amount to NIS 2,849,485,753 divided into 2,849,485,753 ordinary shares, and the amendment of the wording of Article 8 of the Company's Articles of Association and section 2B of the Company's Memorandum of Association, respectively."

### **2.2 Approval of the terms of tenure and employment of Mr. Gil, Sharon as chairman of the board of directors of the Company (the proposed resolution in section 1.2 on the agenda)**

- 2.2.1 On August 2, 2020, the Company's board of directors approved the appointment of Mr. Sharon as ordinary director and as chairman of the board of directors of the Company, as well as his appointment as stated in each of the following: Telephone Communications

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<sup>1</sup> It is noted that as of the report date, the balance of unissued registered capital of the Company is 59,514,247 ordinary shares. Consequently, the allotment of 58,735,000 options that was approved on December 10, 2020 is not subject to the General Meeting's approval for capital increase, however, future allotments by virtue of the equity-based compensation plan may be subject to the capital increase approval in accordance with this resolution.

Ltd. Bezeq International Ltd., D.B.S. Satellite Services (1998) Ltd., Walla! Communications Ltd. and Bezeq Online Ltd. (“**the Subsidiaries**” and “**Chairman of the Board of Directors of the Company**”, as the case may be) with effect as of the date he assumes office.

2.2.2 On August 27, 2020, Mr. Sharon commenced his tenure as chairman of the board of directors of the Company. On September 6, 2020 an extraordinary general meeting of the Company’s shareholders approved Mr. Sharon’s appointment as ordinary director on the Company’s board of directors<sup>2</sup>.

2.2.3 On December 9 and December 10, 2020, the compensation committee and board of directors of the Company, respectively, approved the terms of tenure and employment of Mr. Sharon as chairman of the board of directors of the Company, subject to the approval of the general meeting, in accordance with the provisions of Section 273 of the Companies Law.

2.2.4 Accordingly, and subject to the General Meeting’s approval of the amendments and revisions to the Company’s compensation policy as specified in sections 1.4 above and 2.4 below, the terms of tenure and employment of Mr. Sharon as Chairman of the Board of Directors of the Company are submitted to the approval of the General Meeting, with effect as of August 27, 2020, the date of commencement of his tenure, pursuant to the employment agreement that was signed between Mr. Sharon and the Company on December 10, 2020, which is subject to the approval of the General Meeting (“**the Employment Agreement**”), the highlights of which are set forth below:

2.2.4.1 Roles and responsibilities of the chairman

Mr. Sharon shall serve as director and as chairman of the board of directors of the Company and in this capacity, subject to and in accordance with the board of directors’ resolutions as shall be in effect from time to time, shall also serve as Chairman of the Board of Directors of the Company’s subsidiaries, on a full time basis, and shall provide the following services: (1) lead the Company and outline its strategy, while implementing the strategy adopted by the Company’s board of directors; (2) promote and develop the Company’s business; and (3) carry out, among other things, the powers and duties assigned to him as Chairman of the Board of Directors, pursuant to the provisions of any applicable law, including the Articles of Association and procedures of the Company as shall be revised from time to time.

2.2.4.2 The period of employment; early notice

The employment agreement shall enter into force on August 27, 2020, the date of his entry into office, for an unlimited period. However, each of the parties may terminate this agreement, at any time and for any reason whatsoever, with a

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<sup>2</sup> For additional details on the appointment of Mr. Sharon as director on the Company’s board of directors, see report on the convening of a general meeting which the Company published on August 2, 2020 (reference no. 2020-01-075247), which is included herein by way of reference.

three (3) months prior notice, provided the chairman has been in office less than one year, in which case the early notice period shall be two (2) months.

#### 2.2.4.3 Salary

The total monthly salary of the Chairman of the Board of Directors shall amount to NIS 170,150 in gross terms ("**the Salary**"). The Salary will not be linked to any index. It is clarified that as long as the employment agreement is in effect, the Chairman of the Board of Directors of the Company will not receive a directors' fee from the Company and/or the subsidiaries/second-tier companies, in addition to his Salary.

#### 2.2.4.4 Social and other benefits

The Chairman of the Board of Directors of the Company will be entitled to customary social benefits, including contributions to a savings fund. In addition, he will be entitled to monthly reimbursement of car maintenance expenses in the amount of NIS 11,000, the installment of a refueling device ("Dalkan") and reimbursement of fuel charges.

In addition, the Chairman of the Board of Directors of the Company will be entitled to reimbursement of home telephone and Internet and mobile phone expenses, in accordance with Company procedures, as shall be in effect from time to time, as well as reimbursement of expenses incurred in the discharge of official duty in accordance with Company procedures as shall be in effect from time to time, the scope of which shall be reviewed once annually by the Company's compensation committee.

#### 2.2.4.5 Confidentiality and non-compete

The Chairman of the Board of Directors will be subject to a confidentiality or "non-disclosure" obligation as customary as well as a two-month "cooling-off period" following the end of his term in office, during which the chairman will be paid a salary and all social benefits. During this period he will not compete with the Company's business at that time (including the business of the Company's subsidiaries or affiliated companies) and will refrain from establishing, managing, operating or being the controlling shareholder of any entity whose main business activity is similar to competes with the Company's business activity on the date of termination of the agreement. The Company may waive or shorten the non-compete period.

#### 2.2.4.6 Exemption, indemnification and insurance

Subject to the receipt of approvals as required by law, the Company will include the chairman in its officers' liability insurance policy, in accordance with the terms thereof, and will provide the chairman with a letter of exemption and undertaking to indemnify according to the Company's standard template, to the extent that they are approved for other officers of the Company.

Accordingly, the resolution presently submitted to the approval of the General Meeting, also includes an approval to issue a letter of exemption and undertaking to indemnify with the same wording as in the letters of exemption and undertaking to indemnify that have been approved for all other directors of the Company in the general meetings of Company shareholders dated February 6 and May 14, 2020, with effect as of the date of commencement of his tenure as director (August 27, 2020). On August 5, 2020, the Company's compensation committee approved the inclusion of Mr. Gil Sharon, who serves as Chairman of the Board of Directors of the Company, in the Company's officers liability insurance policy, in accordance with Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000.

#### 2.2.4.7 Allotment of options

The employment agreement stipulates that insofar as an options plan is approved for officers of the Company, the Chairman of the Board of Directors will be entitled to receive options for Company shares, in accordance with the provisions of the competent organs of the Company.

As part of the approval of the equity-based compensation plan and the current allotment by virtue thereof, the compensation committee and board of directors of the Company approved the allotment of 12,000,000 options to the Chairman of the Board of Directors, which are included in the terms of tenure and employment of the Chairman of the Board which are submitted for approval pursuant to the proposed resolution, the principal terms of which are set forth below:

##### A. Terms of vesting and price

The options shall be allotted in 3 grants; each grant representing one third (1/3) of the total amount of options allotted to the Chairman of the Board of Directors of the Company and shall vest in 4 equal annual tranches (the first tranche will vest on December 31, 2021). A different exercise price was determined for each grant, as well as a condition for the exercise price:

	<b>Exercise price</b>	<b>Condition for the exercise price<sup>3</sup></b>
Grant 1	NIS 3.72	NIS 5.00
Grant 2	NIS 4.46	NIS 5.75
Grant 3	NIS 5.35	NIS 7.00

<sup>3</sup> **“Condition for the exercise price”**- the average closing price of the Company's share on the TASE during a period of at least thirty (30) consecutive days prior to the review date shall be equal to or higher than the price specified in the table above. It is noted that the condition for the exercise price is not required to exist on the actual exercise date, but instead must exist during the period between the option vesting date and its expiry date (and prior to the exercise date), even if it does not exist on the actual exercise date.

The exercise price for the first grant is equal to the average closing price of the Company's share on the TASE in the 30 trading days preceding the date of resolution of the board of directors to approve the allotment. The exercise price for the second grant is equal to the exercise price for the first grant with the addition of 20%. The exercise price for the third grant is equal to the exercise price for the second grant with the addition of 20%.

B. The "Net Exercise" mechanism

Subject to the appropriate tax resolution of the Tax Authority, the exercise price will not be paid to the Company, but instead shall be taken into account when calculating the amount of shares to which the offeree is entitled from the exercise of options as shall be elaborated in the Outline.

C. Adjustment provisions

The options will be subject to the customary adjustment provisions in accordance with the terms of the equity-based compensation plan, including upon the issue of rights, the distribution of dividends and in other cases of equity-related corporate actions. Details of the said adjustment provisions will be included in the Outline.

D. The economic value of the options

The fair value of the allotted options, which was estimated using the Monte Carlo Model<sup>4</sup> is NIS 10,860,000. The model parameters that were used in the valuation of the options by an outside appraiser are as follows:

Share price (the closing price on December 9)	NIS 3.688		
Exercise and target prices		Exercise price	Target price
	Grant 1	NIS 3.72	NIS 5.00
	Grant 2	NIS 4.46	NIS 5.75
	Grant 3	NIS 5.35	NIS 7.00
Vesting period	4 years		
Expiry period	7 years		
Abandonment rates following vesting period	It was assumed that vested options are not abandoned		
Projected volatility	29.25%		
Risk-free interest rate	The exercise price is nominal and therefore the interest rate used to discount said price is the nominal yield on a 7-year zero-coupon bond as published by the Bank of Israel close to the valuation date.		
Dividend yield	A zero dividend yield was assumed		

<sup>4</sup> A repeated run of numerous scenarios with regard to the development of the share's price during the life of the option and calculation of the value of the options as the average value in these scenarios.

Projected early exercise	2.8
Average option price	0.905

E. The options will not be allotted before the end of 30 days from the date in which the equity-based compensation plan is submitted to the Tax Authority.

2.2.5 For details on the terms of compensation offered to the Chairman of the Board of Directors according to this report on the convening of a general meeting in accordance with the Sixth Schedule of the Report Regulations, over a period of 12 months, see **Appendix A** of the report regarding the convening of a meeting.

2.2.6 The proposed resolution: "To approve the terms of tenure of employment of Mr. Gil Sharon as Chairman of the Board of Directors of the Company, which will apply retroactively from August 27, 2020, the date of commencement of his tenure, as detailed in section 2.2 of the report on the convening of a general meeting.

**2.3 Allotment of options in accordance with the Company's equity-based compensation plan, to Mr. Dudu Mizrahi, CEO of the Company (the proposed resolution in section 1.3 on the agenda)**

2.3.1 Following approval of the equity-based compensation plan as set forth in Section 2.1.1 above, on December 10, 2020, the Company's Board of Directors, after adopting the compensation committee's recommendation of December 9, 2020 to do so, and subject to the General Assembly's approval of amendments and updates to the Company's compensation policy as detailed in section 1.4 above and 2.4 below, approved the allocation of 9,000,000 options to Mr. Dudu Mizrahi, the Company's CEO, by virtue of the equity-based compensation plan, on terms that are identical to the terms of the options allocated to other officers, managers and senior employees, as detailed in section 2.2.4.7 above.

2.3.2 The fair value of the options offered to the CEO of the Company is NIS 8,145,000, based on the Monte Carlo Model. For the main parameters of the model that were used in the valuation of the options, see section 2.2.4.7(D) above.

2.3.3 The options will not be allotted before the end of 30 days from the date in which the equity-based compensation plan is submitted to the Tax Authority.

2.3.4 For details in accordance with the Sixth Schedule of the Report Regulations regarding the terms of compensation of the CEO, taking into account the allotment of options according to this meeting convening report, over a period of 12 months, see **Appendix A** to this report.

2.3.5 According to section 2.7(A) of the Company's compensation policy, the variable component granted to the CEO of the Company in respect of: a discretionary bonus and/or special bonuses and/or capital compensation, shall not cumulatively exceed 25% of the annual bonus or the total amount of 3 months of basic salary (excluding social benefits), whichever is higher, unless approved by the general meeting of the Company's

shareholders, insofar as mandated by the applicable law. In this regard, given the fact that the options will vest over a period of 4 years, and over the next few years the value of capital compensation is expected to exceed the aforementioned threshold of 25% of the annual bonus or 3-month of basic salary, for the removal of doubt it is clarified that the general meeting's approval to grant a capital compensation to the CEO also implies a confirmation that in the forthcoming option vesting years, the value of the capital compensation, which is now submitted for approval, shall not be deemed a discretionary compensation in calculating the maximum amount of discretionary compensation.

2.3.6 The proposed resolution: "To approve the allotment of 9,000,000 options exercisable into up to 9,000,000 ordinary shares to Mr. Dudu Mizrahi, the CEO of the Company, in accordance with the Company's equity-based compensation plan, as detailed in section 2.3 of the report on the convening of a general meeting.

#### 2.4 **Amendments and revisions to the Company's current compensation policy (the proposed resolution in section 1.4 of the agenda**

2.4.1 On May 23, 2019, the General Meeting approved the Company's compensation policy for a period of three (3) years, as of January 1, 2019, and on February 6, 2020 and May 14, 2020, the General Meeting approved amendments to the Company's compensation policy ("**the Current Compensation Policy**")<sup>5</sup>.

2.4.2 Pursuant to the provisions of Section 267A of the Companies Law, whereby the compensation policy for officers in a public company should be examined from time to time as well as the need to adapt it to the provisions of Section 267B of the Companies Law, the Company has drafted amendments and revisions to the compensation policy, which the Company's board of directors determined in its meeting dated December 10, 2020, after considering the recommendations of the compensation committee that were submitted to it pursuant to Section 118B(2) of the Companies Law.

2.4.3 The amendments and revisions to the compensation policy were made while paying attention, among others, to the changes that took place in the Company from the date of approval of the current compensation committee, including the appointment of a new chairman for the board of directors, the provisions of the law and the Company's needs, and they are marked in relation to the Current Compensation Policy in the wording attached for convenience sake as **Appendix B** to this report, which constitutes an inseparable part thereof ("**the Updated Compensation Policy**").

2.4.4 Below is a summary of the main amendments and revisions in the compensation policy in relation to the Current Compensation Policy (for additional details, see the Updated Compensation Policy, which is attached as Appendix B to this report):

2.4.2.1 Adapting the provisions of the Current Compensation Policy with regard to the equity compensation mechanism, to the approved equity-based compensation

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<sup>5</sup> See the report on the convening of a general meeting, which was published by the Company on April 2, 2020, and is included herein by way of reference.



plan, and adding an option for the future grant of capital compensation to directors.

2.4.2.2 Adapting the provisions of the Current Compensation Policy with regard to the terms of tenure and employment of the Chairman of the Board of Directors of the Company, which are submitted for the approval of the General Meeting as detailed in sections 1.2 and 2.2 above.

2.4.2.3 Revising the provisions of the Current Compensation Policy with regard to a directors and officers liability insurance policy, in line with the update to the Securities Authority's Staff Position that was published recently (Legal Position 101-21) on the subject of compensation policy.

2.4.5 The proposed resolution: "To approve the amendments and revisions to the compensation policy for Company officers, as detailed in section 2.4 of the report on the convening of a general meeting."

**2. The considerations and reasons which guided the Company's compensation committee and board of directors with regard to the proposed resolutions in sections 1.1, 1.2, 1.3 and 1.4 on the agenda**

**3.1 Approval of an increase in the Company's registered share capital (the proposed resolution in section 1.1 on the agenda)**

3.1.1 Increasing the registered capital will give the Company flexibility to allot equity in the future to additional officers of the Company, up to the permitted limit for allotment in accordance with the Company's equity compensation plan.

3.1.2 To complete the picture it is noted that the board of directors and compensation committee were of the opinion that adopting the equity compensation plan is in the Company's best interests, for the following reasons:

A. Adopting an equity-based compensation plan can enhance the identity of interests between the Company's officers and executives and its shareholders and their identification with the goals and objectives of the Company, while promoting the Company's long-term strategy, raising the satisfaction level and motivation, as well as long-term retention of its officers and creating a proper balance between the various components of the equity-based compensation.

B. Share-based payments are in the Company's best interests, serving as a tool for the recruitment and retention of officers, creating a link between the officer's remuneration and value for the Company's shareholders and incentivizing its officers to act in the benefit of the Company and its shareholders, from a long-term perspective.

C. To develop an equity-based compensation plan, the compensation committee conducted an in-depth review, with the assistance of a consulting firm that specializes in share-based payments, of different alternatives to equity-based compensation. Comparative reviews and simulations were presented to the

committee and discussions were held with different interested parties in the Company, including firms that consult to institutional investors, in order to develop a program that best serves the interests of the Company and its stakeholders.

- D. The approved equity-based compensation plan includes, in addition to four-year vesting periods, the terms of exercise of stock options (pricing terms), setting a target price, for exercise purposes, that ranges between NIS 5 and NIS 7 per share and creating an incentive to increase the Company's value, serving the purposes for which the equity-based compensation plan is adopted, as specified above.
- E. The development of an equity-based compensation plan and equity awards by virtue thereof, has taken into account the appropriate relations between the different categories of equity recipients, in order to create compensation mechanisms that reflect the officers' contribution to achieving the Group's objectives and increasing its profits.

### **3.2 Approval of the terms of tenure and employment of Mr. Gil Sharon as Chairman of the Board of Directors of the Company (the proposed resolution in section 1.2 on the agenda)**

3.2.1 The Company's compensation committee and board of directors approved the terms of tenure and employment of Mr. Gil Sharon as Chairman of the Board of Directors of the Company, with effect from the date of commencement of his tenure, for the following reasons:

- 3.2.1.1 The terms of tenure and employment are appropriate and reasonable taking into account his education, qualifications and expertise, and especially Mr. Sharon's in-depth acquaintance with the Company and its subsidiaries and his contribution to the Group's performance which, among others, rely on his ten-year tenure as CEO of Pelephone Communications Ltd. between 2005 and 2015, as well as his extensive experience in the Group's areas of operations, as demonstrated by his accomplishments since he assumed office.
- 3.2.1.2 Compared to the terms of employment of the Company's previous chairman of the board of directors, and based on the opinion of an independent advisor, the proposed terms of employment of the Chairman of the Board of Directors do not exceed the standard terms of employment of board chairpersons in comparable companies.
- 3.2.1.3 The overall remuneration of Mr. Sharon is consistent with the scope of his employment and the substantial responsibilities imposed on the chairman of the Company's board of directors in this capacity, it is also compatible with the Company's size, nature and business activities, and appropriate for promoting its goals, work plans, long-term policy and objectives and the ambition to achieve a worthy board chairman, with extensive experience in the Company's industry, who can lead the Group forward and help it to cope with its challenges.
- 3.2.1.4 The ratio between the fixed component and the variable component (in terms of cost to the Company) in the total remuneration, pursuant to the terms of tenure and employment of the Chairman of the Board of Directors of the Company,

following the grant of equity awards, is reasonable and within the specified range prescribed in the Company's compensation policy, following approval of the proposed amendments therein in accordance with the proposed resolution in sections 1.4 and 2.4 above.

3.2.1.5 The ratio between the cost of the terms of tenure and employment of the Chairman of the Board of Directors of the Company, and the average cost of wages and the median cost of wages of Company employees (including contract employees), is reasonable and appropriate compared to peer companies, and it is not expected to have an adverse impact on labor relations in the Company.

3.2.1.6 Basing part of the overall remuneration to the Chairman of the Board of Directors of the Company on an equity-based compensation mechanism by way of allotment of options exercisable into Company shares, is consistent with the Company's compensation policy, following approval of the proposed amendments therein in accordance with the proposed resolution in sections 1.4 and 2.4 above, and creates compatibility between the interest of the Company and its shareholders and that of the Chairman of the Board of Directors, which is to raise the Company's value, thereby incentivizing the Chairman of take actions that will improve the Company's long-term performance and results, subject to the Company's risk management policy. Regarding the equity-based compensation, see also the reasons set forth in section 3.1.2 above.

3.2.1.7 Regarding the grant of a letter of exemption and undertaking to indemnify: (1) granting exemption from liability and undertaking to indemnify is made in accordance with the Companies Law, the Securities Law – 1968, the Company's Articles of Association and the Company's compensation policy; (2) this is an accepted form of protection afforded by the Company to officers acting on its behalf, allowing them to perform their duties to the benefit of the Company knowing that if they incur any liability, they will be duly protected, subject to the restrictions of the Law; (3) the letters of exemption and undertaking to indemnify is identical to those provided for other directors of the Company; (4) the amount of indemnity is reasonable under the circumstances; (5) the undertaking to indemnify covers events which, in the opinion of the Company's board of directors, can be foreseen given the Company's business; (6) by giving an exemption from liability and undertaking to indemnify, the Company can save the costs of extending the limit of liability for officers in insurance policies.

3.3 **Allotment of options to Mr. Dudu Mizrahi, the CEO of the Company, pursuant to the Company's equity-based compensation plan (the proposed resolution in section 1.3 on the agenda)**

3.3.1 The Company's compensation committee and board of directors approved the terms of allotment of options to the Company's CEO, Mr. Dudu Mizrahi, for the following reasons:

3.3.1.1 Regarding the grant of equity awards see the reasons set forth in section 3.1.2 above.

3.3.1.2 The reasonability of the proposed equity-based compensation and the overall remuneration to which the CEO is entitled was reviewed following the grant of the proposed equity award, compared to the customary equity awards to CEOs of companies of a similar size, based on a comparative opinion prepared by an economic advisor with an expertise in the field of equity awards, and it was found that the total remuneration following the equity awards, as stated, does not exceed the standard amount paid by peer companies.

3.2.1.3 The ratio between the fixed components and the variable component (in terms of cost to the Company) in the total remuneration stipulated in the terms of tenure and employment of the CEO, assuming entitlement to an annual bonus in the maximum amount stipulated in the terms of tenure and employment and the Company's compensation policy, is reasonable and within the specified range prescribed in the Company's compensation policy.

3.3.1.4 The ratio between the cost of employment of the CEO, and the average cost of wages and the median cost of wages of Company employees (including contract employees), is found to be reasonable and appropriate compared to peer companies, and is not expected to have an adverse impact on labor relations in the Company.

#### 3.4 **Amendments and revisions in the Company's Current Compensation Policy (the proposed resolution in section 1.4 on the agenda)**

3.4.1 Adjusting the provisions of the Current Compensation Policy in relation to the equity-based compensation mechanism, to reflect the equity compensation plan that was approved by the Company's compensation committee and board of directors, was approved for the reasons set forth in section 3.1.2 above.

3.4.2 Adjusting the provisions of the Compensation Policy with regard to the terms of tenure and employment of the Chairman of the Board of Directors was approved for the reasons set forth in section 3.2.1.6 above.

3.4.3 With regard to adding an option to grant equity awards to directors:

3.4.3.1 Taking into account the size and scope of activity of the Company, serving on the Company's board of directors, which also includes serving on the boards of the Company's subsidiaries, requires devoting substantial amounts of time, and since it is in the Company's best interests to recruit and retain quality directors, the policy should allow, subject to the terms stipulated in the Law, the grant of equity awards to directors.

3.4.3.2 Basing a portion of directors' compensation on an equity award mechanism is expected to create an alignment between the interests of the Company and the holders of its securities and those of its board of directors with regard to increasing the Company's valuation, while improving its long-term performance, subject to the Company's risk management policy.

- 3.4.3.3 According to the proposed amendment, the value of the annual equity-based compensation on the grant date shall not exceed a total of NIS 300 thousand. This provision creates a proper balance between the various director compensation mechanisms.
- 3.4.3.4 Granting equity awards, if any are granted in the future, shall be made subject to the relevant restrictions stipulated in the Law, including the Companies Regulations (Rules Regarding Compensation and Expenses for External Directors), 2000.
- 3.4.4 Regarding the revision of provisions on the purchase of officers and directors liability insurance policies in line with the update to the Securities Authorities Staff Position (Legal Position 101-21) on the subject of compensation policy:
- 3.4.4.1 Officers and directors liability insurance policy constitutes an accepted form of protection (alongside exemption and indemnity) afforded by the Company to officers acting on its behalf, allowing them to perform their duties to the benefit of the Company knowing that if they incur any liability, they will be duly protected, subject to the restrictions of the Law;
- 3.4.4.2 Due to developments in the insurance market over the last few years, the ISA Staff Position on the subject of compensation was updated, such that companies are not required to specify the maximum cost of premium and amount of deductibles in their compensation policy, for purposes of approval of an officers and directors liability insurance policy pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, as long as the cost of premium and amount of deductibles are based on market conditions on the date of purchase and the policy and the cost is immaterial to the Company. The proposed amendment to the compensation policy would reflect this update in the ISA Staff Position, and provide the Company with the necessary flexibility in its renewal its insurance policies, taking into account potential changes in market conditions while the current compensation policy is still in effect.

#### **4. The name of the controlling shareholder of the Company**

To the best of the Company's knowledge and as of the date of this meeting convening report, the owner of a control permit in the Company is B Communications Ltd. ("**B Com**"), which holds 26.72% of the issued and paid-up share capital of the Company and the voting rights therein, and the controlling shareholders of B Com are Searchlight II BZQ L.P. a limited partnership incorporated in the Cayman Islands ("**Searchlight**") and T.N.R. Investments Ltd. ("**T.N.R.**") a private company incorporated in Israel (hereinafter jointly – "**Owner of a Control Permit in the Company**")<sup>6</sup>.

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<sup>6</sup> For additional details on the owner of a control permit in the Company, see Immediate Report on the holdings of interested parties and senior officers of the Company dated December 12, 2020, which is included herein by way of reference.

**5. Identity of the directors that participated in the meetings of the compensation committee and board of directors of the Company, which approved the Updated Compensation Policy**

- 5.1 In the Compensation Committee meeting dated December 9, 2020 that, among others, approved the Updated Compensation Policy, all the members of the committee attended as follows: Mr. Zeev Vurembrand (external director), Mr. David Granot (independent director) and Ms. Edith Lusky (external director).
- 5.2 In the Board of Directors meeting dated December 10, 2020 which, among others, approved the Updated Compensation Policy as stated in section 1.4 on the agenda, the following directors participated: Mr. Gil Sharon, Chairman of the Board of Directors, Mr. David Granot (independent director), Mr. Zeev Vurembrand (external director), Ms. Edith Lusky (external director), Mr. Darren Glatt (ordinary director) and Mr. Tomer Raved (ordinary director).

It is noted that Mr. Gil Sharon did not attend that part of the discussion in which the Board heard and discussed the amendments to the compensation policy, which involve adjusting the provisions of the compensation policy that relate to the equity-based compensation mechanism and the approved equity-based compensation plan as well as the terms of tenure and employment of the Chairman of the Board of Directors. In addition, directors David Granot and Darren Glatt attended that part of the discussion in which the amendments to the compensation policy concerning the terms of tenure and employment of the Chairman of the Board of Directors were presented and discussed, but did not attend that part of the discussion in which the other amendments were presented and discussed.

In addition, it is noted that the aforementioned directors attended and participated in the discussions and voting as detailed above, in accordance with the provisions of Section 278(B) of the Companies Law.

**6. Names of directors with a personal interest in the proposed resolution and the nature thereof**

- 6.1 Approval of an increase in the Company's registered share capital (the proposed resolution in section 1.1 on the agenda)

To the best of the Company's knowledge, Company directors do not have a personal interest in approving an increase in the Company's registered capital.

- 6.2 Approval of the terms of tenure and employment of Mr. Gil Sharon as Chairman of the Board of Directors of the Company (the proposed resolution in section 1.2 on the agenda)

To the best of the Company's knowledge, Company directors do not have a personal interest in approving the terms of tenure and employment of Mr. Gil Sharon as Chairman of the Board of Directors of the Company, except for Mr. Gil Sharon, since the proposed resolutions in section 1.2 above concerns the terms of his tenure and employment.

- 6.3 Allotment of options to Mr. Dudu Mizrahi, the Company's CEO, in accordance with the Company's equity-based compensation plan (the proposed resolution in section 1.3 on the agenda)

To the best of the Company's knowledge, Company directors do not have a personal interest in approving the allotment of options to Mr. Dudu Mizrahi, CEO of the Company, pursuant to the

Company's equity-based compensation plan, except for Mr. Gil Sharon, since the proposed resolution in section 1.2 above relates to the terms of his tenure and employment.

6.4 Amendments and revisions to the Company's Current Compensation Plan (the proposed resolution in section 1.4 on the agenda)

Messrs. Gil Sharon, David Granot, Zeev Vurembrand, Edith Lusky, Darren Glatt, Ran Fuhrer and Tomer Raved are deemed as having a personal interest in making amendments and revisions to the Company's compensation policy, since the aforementioned amendments and revisions include, among others, adding an option to provide equity awards to Company directors (including the Chairman of the Board of Directors) who are not employees. In addition, Mr. Gil Sharon has a personal interest in amending the policy in view of the fact that parts of this amendment would revise the policy to reflect the terms of tenure and employment of the Chairman of the Board of Directors, which are submitted for approval pursuant to this report.

7. **Convening a general meeting**

7.1 Date and location of the meeting

An extraordinary general meeting of the Company's shareholders was convened for January 18, 2021 at 11:00 in the Company's offices on 7 Hamanor Street, Holon, 5<sup>th</sup> floor, whose agenda includes the issues enumerated in section 1 above.

7.2 Majority required for passing the resolutions on issues 1.1 to 1.4 on the meeting's agenda

A. In accordance with the Company's Articles of Association, the required majority to pass the resolution detailed in section 1.1 on the agenda is 75% of the total votes of shareholders attending the meeting who are entitled to vote and have voted thereat, provided one of the following conditions are met:

(1) The count of the majority votes in the General Meeting includes a majority of all the votes of the shareholders who do not have a personal interest in approving an increase in the registered share capital, and who participate in the vote; the count of the votes of the aforesaid shareholders will not take abstentions into account; the provisions of section 276 of the Companies Law apply to whoever has a personal interest.

(2) The total votes against the resolution from among the shareholders referred to in subsection (1) above does not exceed two percent of all the voting rights in the Company.

B. The majority required to pass the resolution detailed in section 1.2 on the agenda is an ordinary majority.

C. The majority required to pass the resolutions set forth in sections 1.3 and 1.4 on the meeting's agenda, is an ordinary majority of the total votes of shareholders attending the meeting who are entitled to vote and have voted thereat, provided one of the following conditions are met:

(1) The count of the majority votes in the General Meeting includes a majority of all the votes of the shareholders who are not controlling shareholders or have a personal

interest in approving the issue on the agenda of the meeting, as the case may be, who participate in the vote; the count of the votes of the aforesaid shareholders will not take abstentions into account; the provisions of section 276 of the Companies Law apply to whoever has a personal interest.

- (2) The total votes of against the resolution from among the shareholders referred to in subsection (1) above does not exceed two percent of all the voting rights in the Company.

### 7.3 Quorum and adjourned meeting

If a quorum is not present within half an hour of the time set for the Meeting (two shareholders holding or representing at least 25% of the voting power of the Company, who are present, in person or by proxy, or have sent the Company a voting instrument indicating their vote), the meeting will be adjourned to January 25, 2021, at the same time and in the same place. If there is no quorum at the Adjourned Meeting within half an hour from the time set for the meeting, the Adjourned Meeting will be held with any number of attendees.

### 7.4 Record date, eligibility to participate and manner of voting at the Meeting

The record date for determining eligibility to attend in and vote at meetings pursuant to Section 182 of the Companies Law and Section 3 of the Companies Regulations (Voting in Writing and Position Statements), 5766-2005 will take place at the close of the trading day for the Company's Securities on the Tel Aviv Stock Exchange Ltd. ("**the TASE**") on December 21, 2020, at the close of the trading day on TASE ("**the Record Date**").

In accordance with the Companies Regulations (Proof of Ownership of a Share for the purpose of Voting at a General Meeting), 5760-2000 ("**Proof of Share Ownership Regulations**"), a shareholder of the Company, in whose favor a share is registered with a TASE member and said share is included among the shares registered in the register of shareholders in the name of the Nominee Company ("**Unregistered Shareholder**"), who wishes to vote in a shareholders meeting, is entitled to prove his ownership of the Company's shares on the Record Date, for purposes of voting at the General Meeting, by providing proof of ownership from a TASE member with which his right to a share is registered, not later than 24 hours before the date of convening of the Meeting.

An Unregistered Shareholder is entitled to receive proof of ownership from the TASE member with which he holds his shares, at a branch of the TASE member or by mail to his address, in exchange for a delivery fee only, if requested. Such a request must be given in advance for a specific securities account.

Pursuant to the provisions of Regulation 4A of the Proof of Share Ownership Regulations, a permitted electronic message under Section 44(K)5 of the Securities Law- 1968 ("**the Securities Law**"), which refers to the details of users of the electronic voting system – shall be deemed as proof of ownership with respect to any shareholder included therein.

A shareholder in the Company on the Record Date shall be entitled to attend and vote at a meeting either in person, or by his proxy or via a voting instrument (as detailed in section 8.5 below), provided a letter of appointment is deposited at the Company's offices at least 48 hours



before the start of the General Meeting ("**Letter of Appointment**"). The Letter of Appointment shall be in writing and signed by the appointer or by his representative who is authorized to do so in writing, and if the appointer is a company, the Letter of Appointment shall bear the company's seal (if there is one), and in the absence of a seal - by the party authorized to do so together with the stamp of that company. In addition, an Unregistered Shareholder, who is a shareholder of the Company on the Record Date, shall be entitled to vote at the General Meeting also by means of the electronic voting system (as detailed in section 7.6 below).

## 7.6 Voting instrument, position statements and adding items to the agenda

- 7.5.1 Voting on the issue set forth above shall be permitted by means of a voting instrument, which is attached to this Immediate Report. Written votes shall be made on the second part of the voting instrument, as published on the distribution site.
- 7.5.2 The voting instruments and position statements can be viewed on the distribution site of the Securities Authority at: [www.magna.isa.gov.il](http://www.magna.isa.gov.il), on the website of the Tel Aviv Stock Exchange Ltd. at [maya.tase.co.il](http://maya.tase.co.il) and on the Company's website at: [www.bezeq.il](http://www.bezeq.il).
- 7.5.3 The TASE member shall send by electronic mail, free of charge, a link to the text of the voting instrument and position statements at the Securities Authority's distribution site, to any Unregistered Shareholder whose shares are registered with that TASE member, unless the shareholder has given notice that he does not wish to do so, and provided the notice was given in respect of a specific securities account and on a date that precedes the Record Date.
- 7.5.4 A shareholder may contact the Company directly and ask for the wording of the voting instrument and position statements.
- 7.5.5 The deadline for delivering position statements to the Company by the shareholders is ten (10) days before the date of the General Meeting, that is, by January 8, 2021. The deadline for the Board of Directors' response to the position statements to the Company is five (5) days before the date of the General Meeting, that is, by January 13, 2021.
- 7.5.6 An Unregistered Shareholder who wishes to vote by means of a voting instrument shall indicate his vote on the second part of the voting instrument, and deliver it to the Company or send it by registered mail together with proof of ownership, so that the voting instrument will arrive at the Company's registered office no later than four (4) hours before the start of the General Meeting.
- 7.5.7 A Shareholder registered in the Company's Shareholders Register, who wishes to vote by means of the voting instrument shall indicate his vote on the second part of the voting instrument, and deliver it to the Company or send it by registered mail together with a copy of his identity card, or a copy of his passport, or a copy of the certificate of incorporation, so that the voting instrument will arrive at the Company's registered office no later than four (4) hours before the start of the General Meeting.
- 7.5.8 In accordance with section 66(B) of the Companies Law, one or more shareholders holding at least one (1) percent of the voting rights at the General Meeting, is entitled to request the Board of Director to include an item on the agenda of the General Meeting, provided that the item is suitable for discussion at the General Meeting. In accordance with the "Notice of General Meetings" Regulations, a request under section 66(B) of the

Companies Law shall be provided to the Company up to seven (7) days after convening a General Meeting, that is, up to December 19, 2020. To the extent that such request has been submitted, items may be added to the Meeting's agenda and the details of such items will be available on the website of the Securities Authority.

#### 7.6 Voting by means of the electronic voting system

As stated above, an Unregistered Shareholder may vote on the items set forth above by means of the electronic voting system.

Voting by an electronic voting instrument will be permitted from the date of receipt of confirmation from the electronic voting system regarding proper receipt of a list of those eligible to vote using the electronic voting system, and up to six (6) hours before the time set for the General Meeting ( "**System Lockdown**" ), at which time the electronic voting system will shut down.

A vote cast by means of the electronic voting system can be changed or cancelled until the Time of System Lockdown, after which it may not be changed via the electronic voting system. It is noted that pursuant to Section 83(d) of the Companies Law, if a shareholder has voted by more than one means the last of his votes shall be counted, while for these purposes the vote of the shareholder in person or by proxy will be deemed later than a vote via the electronic voting system.

An Unregistered Shareholder may send proof of ownership to the Company via the electronic voting system until System Lockdown as set forth above. An approved electronic message pursuant to Section 44K5 of the Securities Law, concerning the details of users of the electronic voting system – shall be deemed as proof of ownership of a share with respect to any shareholder included therein.

An Unregistered Shareholder in whose name shares are registered with a TASE member, is entitled to receive from said TASE member details regarding access to the electronic voting system. The vote will be made using the electronic voting instrument in the electronic voting system.

#### 7.7 Company representative

The Company's representative with respect to this Report is the Group Secretary, advocate Shelly Baineoren, at 7 Hamanor Street, Holon (Tel No. 03-626-2200; Fax: 03-626-2209).

#### 7.8 Review of documents

The Company's shareholder may, at their request, review this Notice and the documents attached thereto (if any) at the Company's offices at: 7 Hamanor Street, Holon, 5<sup>th</sup> floor, Sunday-Thursday between 10:00 – 15:00 after coordinating their visit by telephone no. 03-626-2200.

Sincerely,

Shelly Baineoren, Adv.

Group Secretary

Bezeq – The Israel Telecommunication Corp. Ltd.

## Appendix A – Terms of Remuneration

Below are details pursuant to the Sixth Schedule of the Securities Regulations (Periodic and Immediate Reports) – 1970, regarding the terms of remuneration of Mr. Gil Sharon, Chairman of the Board of Directors and Mr. Dudu Mizrahi, CEO of the Company, over a period of 12 months, assuming the approval of the resolutions set forth in the notice to convene a general meeting (the amounts are in NIS):

Details on recipient of remuneration				Remuneration (in terms of cost to the Company) <sup>(1)</sup>						
Name	Position	Scope of position	Percentage holding in the Company's equity <sup>(1)</sup>	Wages <sup>(2)</sup>	Mgmt. fees	Bonus <sup>(3)</sup>		Consulting fees	Other	Total
						Cash	Equity <sup>(4)</sup>			
Mr. Gil Sharon	Chairman of the Board	100%	-	2,700,000	-	-	2,715,000	-	-	5,415,000
Mr. Dudu Mizrahi	CEO	100%	Negligible	2,457,000		2,250,000	2,036,250	-		6,743,250

- (1) Fully diluted, assuming an allotment of options as detailed in this report for the convening of a general meeting and the exercise of said options into Company shares, Messrs. Sharon and Mizrahi are expected to hold 0.42% and 0.32% of the Company's issued share capital, respectively (without taking into account the fact that the options are allotted by means of the "Net Exercise" mechanism. Accordingly, the actual dilution is expected to be lower than stated).
- (2) Including a company car / reimbursement of expenses in lieu of a car, contributions to the National Insurance Institute, social and other benefits; excluding provision for early termination period.
- (3) Assuming that Mr. Mizrahi was paid an annual bonus at the maximum amount of 125% of the annual salary (calculated as a percentage of the base salary pay, excluding fringe benefits).
- (4) The fair value of the stock options as of the date of approval of their allotment by the Company's board of directors, using the "Monte Carlo" model, in the vesting year (the fair value of the total amount of allotted options divided by the number of vesting years).

*The above information constitutes a translation of the Immediate Report published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.*