



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

The Securities Authority The Tel Aviv Stock Exchange Ltd
Via Magna Via Magna

Re: **Immediate report on convening a Special General Meeting
of the Company's shareholders**

In accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970 ("the Periodic and Immediate Reports Regulations"), the Companies Law, 1999 ("the Companies Law") and the Companies (Notice and Notification of a General Meeting and a Class Meeting in a Public Company and Adding an Item to the Agenda) Regulations, 2000 ("the Notice and Notification Regulations"), notice is hereby given of calling a Special General Meeting of the shareholders of the Company. The General Meeting will be held on **Thursday, May 23, 2019 at 11:00**, in the Company's offices in Tel Aviv, Azrieli Center 2, (Triangular Building), 27th floor.

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1. The agenda of the General Meeting

The following items comprise the agenda of the General Meeting:

Re-approval of the compensation policy of the Company pursuant to section 267A of the Companies Law, including its update, for a period of three years commencing January 1, 2019.

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For details of the main updates to the compensation policy, see section 3.6 below.

The new compensation policy is marked in relation to the existing compensation policy and is attached as Appendix A to this report.

2. Text of the proposed resolutions

Re-approval of the compensation policy of the Company pursuant to section 267A of the Companies Law, including its update, for a period of three years commencing January 1, 2019, in accordance with the text attached as Appendix A to this report.

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PART 1 – DETAILS REQUIRED FOR RE-APPROVAL OF THE COMPENSATION POLICY

3. Description of the main points of the Compensation Policy and its update

3.1 On May 3, 2016 the General Meeting of the shareholders of the Company approved the Company's compensation policy for a period of three years. On April 4, 2017, May 21, 2018, July 26, 2018 and September 17, 2018 the General Meeting of the shareholders of the Company approved amendments to the existing compensation policy (together: "the Compensation Policy").

3.2 In the period elapsed since the date of adoption of the Compensation Policy and in light of the experience gained by the Company in its implementation, the Company decided to adopt a new compensation policy ("the New Compensation Policy") in order to, *inter alia*, meet the needs that typify the operations of the Company and the changes that have occurred in it.

- 3.3 The New Compensation Policy, which is attached as Appendix A to this report, if approved, will come into force commencing January 1, 2019 and remain in force for three (3) years from that date, and will apply also to officers, including the CEO of the Company, with regard to targets set for 2019.
- 3.4 Based on the recommendations of the Compensation Committee and bearing in mind all those matters that must be considered in relation to the Compensation Policy pursuant to section 267B of the Companies Law, the New Compensation Policy was approved by the Board of Directors of the Company on March 27, 2019, and May 15, 2019 and is brought for the approval of the General Meeting of the shareholders of the Company in accordance with the provisions of section 267A of the Companies Law.
- 3.5 For the removal of doubt, it is hereby clarified that approval of the proposed compensation policy does not derogate from and/or change provisions of agreements or terms of tenure that were approved prior to approval of the New Compensation Policy, unless expressly so stated in this report.
- 3.6 Below are the main updates in the New Compensation Policy compared with the text of the Compensation Policy, as of the date of this report.
- 3.6.1 Base salary can no longer be linked to the Consumer Price Index ("CPI").
- 3.6.2 A deviation of up to 10% above or below base salary ranges, benefits and/or performance based bonus will be seen as a deviation from the compensation policy.
- 3.6.3 For each officer, a ceiling of up to NIS 10,000 per year has been set for reimbursement of expenses and of NIS 20,000 per month for the total cost of the Company car and the other associated benefits (as defined in the Compensation Policy) (including the aforementioned reimbursement of expenses). The reimbursement of expenses and the additional associated benefits must be accompanied by the relevant documentation.
- 3.6.4 The advance notice period for VPs (as defined in the Compensation Policy) will be up to 6 months (instead of a period of between 3 months to 6 months in the Compensation Policy).
- 3.6.5 A threshold condition will be added to eligibility for a bonus, in which an officer is likely to be entitled to a bonus only if he has actually worked at least four months in a relevant year (and unless the Compensation Committee decides otherwise).
- 3.6.6 An Adjusted EBITDA target (as defined in the New Compensation Policy) and a net profit (after tax) target have been added to the possible reward targets.
- 3.6.7 An option has been added for the Compensation Committee and the Board of Directors to eliminate from calculations of performance for the bonus, implications for the financial results from provisions for the early retirement or voluntary retirement of employees, should they occur.

3.6.8 Lowering of ceiling of basic salary for CEOs.

3.6.9 Lowering of ceiling of special bonus

3.6.10 Updated ratios between fixed and variable components for entire group of officers.

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For the remaining details of the Compensation Policy, including its proposed updates, see the text of the New Compensation Policy with those changes marked, which is attached as Appendix A to this report.

- 3.7 It should be noted that as of the date of the notice for the General Meeting, the terms of tenure and employment of some of the officers in the Company, with whom an employment agreement was signed before October 2018, include linkage to the CPI, which does not comply with the New Compensation Policy.
- 3.8 The Company is a public sub-subsiary.
- 3.9 Below is a comparison of the compensation actually paid to the CEO and Chairman of the Board with the ceilings set in the Compensation Policy that was in force in each of the years 2016 – 2018.

		2018 ¹	2017	2016
Chairman of the Board ²	Fixed component	100%	See footnote ³	
	Variable component	-		
CEO	Fixed component	79%	79%	70%
	Variable component	36%	48%	65%

4. The considerations guiding the Compensation Committee and the Board of Directors in updating the Compensation Policy

4.1 The purpose of the Compensation Policy

¹ Ms. Stella Handler was employed in the Company as CEO until August 31, 2018 and on September 1, 2018 she was replaced by Mr. David Mizrahi. In the calculations of the fixed component and the variable component **in 2018** their compensations were calculated **together**, so that for Ms. Handler the last 8 months of her employment as CEO were taken into account and for Mr. Mizrahi the first 4 months of his employment as CEO were taken into account.

² **In respect of the terms of compensation of the present Chairman of the Board, Mr. Shlomo Rodav, which was approved by the General Meeting of the Company's shareholders on September 17, 2018, see the Report of Convening a General Meeting dated August 12, 2018 (ref. no. 2018-01-075118) (this information represents a generalization). In this connection, it is noted that on May 3, 2019 the Chairman of the Company's Board informed of his request and that of the management company, the Israel Lighterage & Supply Co. Ltd, of which 50% of the means of control are held by him, to reduce the total management fees by 20% for 2019 (namely, retroactively from the payment for January 2019).**

³ The terms of tenure of the Chairman of the Board are not laid down **in those years** in the Company's Compensation Policy and **are/were** approved separately by the General Meeting of the Company as part of approval of the management agreement with Eurocom Communications Ltd. ("Eurocom") – the controlling shareholder in the Company. For details about the management agreement between the Company and Eurocom, which includes payment in respect of the services of the Chairman of the Board, which was approved by the General Meeting of the Company on June 30, 2016, see the immediate report dated May 25, 2016, included by way of reference.

³ The performance dependent bonus ceiling for CEOs will be limited to 100% of their annual base salary (assuming 100% compliance) with up to 125% of the annual base salary in case of over performance.

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The proposed compensation policy is adapted to the roles of officers in the Company, to their areas of responsibility in the Company and to the attainable targets set for them in fulfilling their functions.

Among the purposes of the Compensation Policy are the following:

- 4.1.1 Advancing the goals of the Company and the Group, the work plans and policy of the Company from a long-term perspective;
- 4.1.2 The creation of appropriate compensation for the officers, taking into account, among other things, the size of the Group or the Company and its risk management policy;
- 4.1.3 Recruitment and retention of capable senior managers, which will lead to long-term business success, to achievement of their targets and to meeting the challenges they face;
- 4.1.4 The creation of a proper balance between the various compensation components – fixed and variable, short term versus long term, etc.

4.2 Ratio of officers' compensation to the compensation of the other Company employees

The Compensation Committee and the Board of Directors of the Company found that the ratio of the cost of salaries of the officers in the Company to the average cost of salaries and the average median cost of salaries in the Company of the other Company employees (including temporary placement workers) is reasonable, and that the ratio does not affect labor relations in the Company.

For details of the ratio of the compensation to officers to the compensation of the other Company employees, see section 5 of the New Compensation Policy.

4.3 The terms of the compensation – General

The Compensation Committee and the Board of Directors of the Company believe that the New Compensation Policy is coherent with the targets and business strategy of the Company and with the existing terms of compensation of officers in the Company.

4.3.1 Terms of compensation – Fixed component

- A. The Compensation Committee and the Board of Directors of the Company believe that the purpose of the fixed component is mainly to provide the officer with certainty and stability and to compensate him for performance of the requirements of the role and for the time he regularly devotes to performance of his role in the Company.
- B. The fixed salary reflects both the qualifications and professional experience of the officer and the definition of his function, including the authority and the responsibility stemming from them.
- C. The Compensation Committee and the Board of Directors of the Company believe that the maximum cost of salary set in the Compensation Policy, depending on the functions of the officers, are reasonable and appropriate.

4.3.2 Terms of compensation – Variable component

While the fixed salary represents the Company's expectations of the officer in achieving certain defined targets suited to his regular function, the purpose of the variable component is to reflect, to the extent possible, the contribution of

the officers to the realization of the Company's goals and the maximization of profits, taking the long view.

Bonuses

- A. The Compensation Committee and the Board of Directors of the Company believe that the mechanism of the annual bonus for officers relates to congruence between the performance of the Company and the personal performance of the officer according to his areas of responsibility, and is likely to be decided in view of the targets defined for him for fulfillment of his function, which are not necessarily measurable and foreseeable against predetermined criteria. The Company's targets, including the Adjusted EBITDA target and/or the net profit (after tax) target, reflect the success of the Company as a whole in accomplishing its plans, the contribution of the officers to that success and the desire of the Company to reward the officers for meeting those targets.
- B. The proposed bonus mechanisms were determined after the Compensation Committee and the Board of Directors of the Company discussed the special character of the Company. It is clarified that in everything related to measurable bonuses, the Compensation Committee and the Board of Directors attach great importance to choosing a formula that is as clear and lucid as possible, so that it is explicit and unambiguous.
- C. It is further noted that the New Compensation Policy allows the Compensation Committee and the Board of Directors of the Company to decide to eliminate one-time events which it believes are unrelated to the operations of the Company, and to do so in respect of events that stem, *inter alia*, from accounting changes, taxation changes, material failures or provisions for early retirement or voluntary retirement of employees, provided that their impact was not taken into account in the Company budget.
- D. The Compensation Policy grants the Board of Directors of the Company the authority to reduce the amount of the annual bonus for officers, and in this way the Compensation Policy enables adjustment of the amount of the bonus of the officers, *inter alia*, to the extent of their personal contribution to the achievements of the Company and to its work plan.
- E. In the view of the Compensation Committee and the Board of Directors of the Company, the threshold conditions for receipt of the performance-based bonus which were set in the Compensation Policy, are reasonable and appropriate. In addition, bonus ceilings set for officers, depending on their functions, are appropriate and reasonable.

Equity component

- A. In the opinion of the Compensation Committee and the Board of Directors of the Company, a share-based payment strengthens the correlation between the amount of the compensation of the officer and maximizing value for the shareholders of the Company, and creates a similarity of

interests between the officers and the shareholders and helps create motivation. Equity compensation is designed also to link the compensation of the officer to achieving the targets of the Company from a long-term perspective.

- B. The Compensation Committee and the Board of Directors of the Company believe that the terms of the equity component, including the vesting period, which were set in the Compensation Policy, are reasonable and worthy.

The Compensation Committee and the Board of Directors of the Company believe, taking into account all the parameters, considerations and reasons listed above, that the Company's Compensation Policy is worthy and reasonable, including the addition of the aforementioned compensation targets, and that the Compensation Policy serves the good of the Company and its shareholders from a long-term perspective, taking into account the Company's strategy, its business targets and its compliance with the Company's risk management policy.

4.4 Ratio of the fixed compensation component to the variable compensation component

It is the position of the Compensation Committee and the Board of Directors of the Company that the mix of the various compensation components is designed to create a balance and worthy relationship between the fixed compensation and the variable compensation, with the aim of creating a performance-based compensation system that promotes the targets of the Company and complies with its risk management policy,

The ratio of the annual costs of the fixed component (including associated benefits and terms) to the annual cost of compensation of officers, with reference to the compensation ceilings, is as described in section 7.3.1 of the New Compensation Policy.

5. **Name of the controlling shareholder in the Company and the nature of its personal interest in the Item on the agenda of the General Meeting**

The controlling shareholder in the Company is B Communications Ltd. ("B Com"), which holds 26.34% of the issued capital and voting rights in the Company.

For more information, see the immediate report on the holdings of interested parties and senior officers, dated January 7, 2019 (included here by way of reference).

To the best of the Company's knowledge, the controlling shareholder in the Company has no personal interest in the Item on the agenda of the General Meeting.

6. **Names of the directors who have a personal interest in the approval of Item 1.1 on the agenda of the General Meeting, and the nature of that interest**

All the directors in the Company have a personal interest in the Compensation Policy, since it sets the framework conditions of tenure that the Company can grant them.

7. **Names of the directors who attended meetings of the Compensation Committee and the Board of Directors in connection with the Item on the agenda of the General Meeting**

- 7.1 All the members of the Compensation Committee attended the meetings of the Compensation Committee on March 24, 2019, May 2, 2019 and May 12, 2019 which discussed the Item on the agenda: Mr. Amnon Dick – chairman of the committee, Mr. Zeev Vurembrand, Ms. Idit Lusky (external director), and Mr. Dov Kotler (independent director).

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- 7.2 The meeting of the Board of Directors of the Company on March 27, 2019, which discussed the Item on the agenda, was attended by the following Board members: Mr. Shlomo Rodav – Chairman of the Board, Mr. Doron Turgeman (ordinary director), Mr. David Granot (independent director), Mr. Amnon Dick, Mr. Zeev Vurembrand and Ms. Idit Lusky (external directors). At a further meeting of the Company's Board on May 15, 2019 that discussed the Item on the agenda, the following Board members attended: Mr. Shlomo Rodav – Chairman, Mr. Ami Barlev, Mr. Doron Turgeman (regular directors), Mr. David Granot, Mr. Dov Kotler (independent directors), Mr. Amnon Dick, Mr. Zeev Vurembrand and Mrs. Idit Lusky (external directors).

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PART 2 – ADDITIONAL DETAILS ABOUT CONVENING THE GENERAL MEETING

8. Additional details

8.1 The majority required for passing the resolutions

8.1.1 The majority required for passing the resolution described in section 2.1 above is a simple majority of all the votes of the shareholders who attend the meeting, who are entitled to vote and did vote, provided that one of the following obtains:

- (1) The count of the majority votes at the General Meeting includes a majority of all the votes of the shareholders who are not the controlling shareholder in the Company or do not have a personal interest in approval of the New Compensation Policy, as the case may be, who participate in the vote; the count of all the votes of these shareholders will not take abstentions into account; the provisions of section 276 of the Companies Law apply to those who have a personal interest, mutatis mutandis.
- (2) Total votes against the resolution from among the shareholders referred to in sub-section (1) do not exceed two percent of all the voting rights in the Company.

8.2 Place and date of convening the General Meeting; quorum, and date of an adjourned meeting

The General Meeting will convene on Thursday, May 223, 2019 at 11:00 in the Company's offices. The Articles of Association of the Company state that the discussions of the General Meeting may be opened only if a quorum is present. A quorum is the presence of at least two shareholders who hold at least twenty-five percent (25%) of the voting rights in the Company (including presence by means of a proxy or a voting slip), within half an hour of the time set for opening the meeting.

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If a quorum is not present at the opening of the General Meeting or at the end of the half hour from the time set for opening the meeting, the date of the meeting will be postponed for one week, to the same day, the same time and the same place.

8.3 **Date of Record, eligibility to attend the General Meeting and manner of vote**

The Date of Record for eligibility to attend and vote in the General Meeting, according to Section 182(c) of the Companies Law and Article 3 of the Companies (Written Vote and Position Papers) Regulations, 2005, is April 3, 2019, ("the Date of Record"). If there is no trading on the Date of Record, then the Date of Record will be the last day of trading prior to that date.

Under the Companies (Proof of Ownership of a Share for Voting at the General Meeting) Regulations, 2000 ("Proof of Share Ownership Regulations"), a shareholder against whose name a share is registered with a member of the stock exchange and that share is included among the shares listed in the register of shareholders in the name of the nominee company ("Unregistered Shareholder"), is entitled to prove his ownership of Company shares on the Date of Record for the purpose of voting at the General Meeting, by way of submission of confirmation to the Company from the member of the stock exchange with which his right to the share is registered, no later than 24 hours prior to the time of convening the General Meeting.

An Unregistered Shareholder is entitled to receive the confirmation of ownership from the stock exchange member through which he holds his shares, at the branch of the stock exchange member or by mail to his address for delivery fees only, if he so requested. Such a request must be made in advance to a specific securities account.

A shareholder in the Company on the Date of Record is entitled to attend the General Meeting and to vote there in person or by proxy, after deposit of a letter of appointment at the Company's offices at least 48 hours prior to the time of convening the General Meeting ("the Letter of Appointment"). The Letter of Appointment should be in writing and signed by the appointer or by his authorized legal representative, and if the appointer is a corporation, the Letter of Appointment should bear the corporation's seal (if it has one), and in the absence of a seal – by the person authorized to do so together with the stamp of the corporation.

8.4 **Voting slip, position papers and adding items to the agenda**

Votes on the Item described above may be cast also by means of the voting slip attached to this immediate report as Appendix B. The written vote should be made on Part Two of the voting slip as published on the distribution site.

The addresses of the distribution site of the Securities Authority, the website of the Tel Aviv Stock Exchange Ltd. and the Company's website, where the text of the voting slip and the position papers can be found: the distribution site of the Securities Authority: www.magna.isa.gov.il; the website of the Tel Aviv Stock Exchange Ltd.: www.maya.tase.co.il; the Company's website: www.bezeq.co.il.

An Unregistered Shareholder is entitled to receive, by email and free of charge, a link to the text of the voting slip and position papers on the distribution site of the Securities Authority, from the member of the stock exchange through which he holds his shares, unless he notifies the member of the stock exchange that he does not wish to receive the link, provided that the notice is given for a specific securities account and on a date prior to the Date of Record.

The deadline for submitting position papers of shareholders to the Company is up ten (10) days before the date of convening the General Meeting, i.e. by April 22, 2019. The deadline for submitting the response of the Board of Directors to the position papers is up to five (5) days before the date of convening the General Meeting, i.e. by April 27, 2019.

An Unregistered Shareholder who wishes to vote using a voting slip, should note how he votes in Part 2 of the voting slip, and deliver it to the Company or send it to the Company by registered mail together with confirmation of ownership, so that the voting slip reaches the registered office of the Company no later than four (4) hours prior to the time of the General Meeting.

The last date for submitting a voting slip (including the documents that must be attached to it, including confirmation of ownership, as noted above and on the voting slip)

A shareholder who is listed in the Company's register of shareholders and who wishes to vote using the voting slip, should mark his vote in Part 2 of the voting slip and deliver it to the Company or send it by registered mail, together with a photocopy of his identity card or of his passport or of the certificate of incorporation, so that the voting slip reaches the registered office of the Company by four (4) hours prior to the time of convening the General Meeting.

According to section 66(b) of the Companies Law, one or more shareholders who holds at least one (1) percent of the voting rights at the General Meeting, may request that the Board of Directors include an item on the agenda of the General Meeting, provided that its subject is suitable for discussion at the General Meeting. According to Article 5A(a) of the Notice and Notification Regulations, a request pursuant to section 66(b) of the Companies Law should be submitted to the Company up to seven (7) days) after the General Meeting is called. If such a request is submitted, it is possible that items will be added to the agenda of the meeting and if so, their details will appear on the distribution site of the Securities Authority.

Voting through the electronic voting system

In addition to the above, an Unregistered Shareholder is entitled to vote on the items listed above using a voting slip that will be transmitted to the Company through the Electronic Voting System (as defined in the Written Vote Regulations). The vote by means of the Electronic Voting System will be possible from the date of receipt of confirmation from the Electronic Voting System of proper receipt of the list of those entitled to vote in the Electronic Voting System and up to six (6) hours prior to the time of convening the General Meeting ("System Lock Time"), when the Electronic Voting System will be closed. A vote in the Electronic Voting System can be changed or cancelled up to the System Lock Time. It should be noted that pursuant to section 83(d) of the Companies Law, if a shareholder voted using more than one method, the latest of his votes will be counted, and for this matter a vote of a shareholder, cast by him personally or by his proxy, will be seen as later than a vote through the Electronic Voting System.

8.5. Review of documents

The Company's shareholders can, upon request, review this notice and the documents attached to it (if any) at the Company's administration office at Azrieli Center 2,

Triangular Building, 27th floor in Tel Aviv, on Monday-Thursday between 10:00 and 15:00 (Tel: 03-626-2200).

Shelly Bainhoren, Adv.
Group Corporate Secretary
Bezeq The Israel Telecommunication Corp. Ltd.

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

Appendix A – The New Compensation Policy

