



Bezeq - The Israel Telecommunication Corp. Ltd. ("Company")

December 15, 2020

The Israeli Securities Authority

The Tel Aviv Stock Exchange

Immediate Report – Hearing on the determination of maximum rates for the Company's retail telephony services

On December 15, 2020, the Ministry of Communications published a hearing on the matter of setting maximum rates for the Company's retail telephony services (the "**Hearing**").

1. In accordance with the hearing documents, given the time that has elapsed since the basis of the said existing retail rates (the "**Rates**") had been set, and given the changes that had occurred in the telecommunications sector, the supervisory mechanism for the rates should be adjusted, as well as the level of the rates, in order to adapt to these changes. Additionally, following the previous hearing published by the Ministry in 2017, on the subject of the rates supervisory mechanism (see the Company's Immediate Report dated June 28, 2017 and Section 2.16.1.6 of the "Description of Company Operations" Chapter in the Company's Periodic Report for 2019), in which two alternatives were proposed (transition to maximum rates and removal of rates supervision from the main telephony services), the Ministry is of the opinion that at present the alternative of supervision removal is not relevant and will not necessarily lead to rate reduction, and that the Company's rates should be examined and updated with the passage of time, and to the current cost structure and state of competition.
2. Accordingly, and based on the economic opinion which was enclosed with the hearing documents, it is proposed to adopt a uniform fixed fee, and to set the fixed fee and usage charge per minute as maximum rates. As per the hearing, the basis for setting the proposed rates is the wholesale costs with the addition of a proposed retail margin component of 25%.

3. In accordance with the above, it is proposed that the maximum rates per line and call (in NIS) will be as follows:

Service	Current Rate		Proposed Rate (Maximum)	
	VAT excluded	VAT included	VAT excluded	VAT included
Monthly charge for regular telephone line	49.5	57.92	20.82	24.36
Rate for call minute to fixed-line networks ¹	Low – 0.035 Peak – 0.0857	Low – 0.041 Peak – 0.010	0.012	0.014
Rate for call minute to mobile networks ²	0.1098	0.128	0.072	0.084

4. It is also proposed to set a maximum rate for a service bundle that the Company will be obligated to market to its subscribers, which will include 500 minutes to fixed-line and mobile destinations at a maximum rate of NIS 28, including VAT, with an additional fixed rate charge for each minute exceeding the said bundle. At the same time, it is also proposed to cancel all the alternative existing bundles and give the Company the option to market new service bundles at reasonable rates in relation to the maximum rates specified in the hearing and such that do not exceed these listed rates.
5. In the Ministry's estimate, the proposed change in rates is likely to reduce the expenses of the fixed-line residential telephony sector to the extent that it will reduce the costs of fixed-line telephony consumers by approximately NIS 331 million a year (NIS 390 million, including VAT).
6. It should be noted that additional changes are proposed in the hearing, including adjustments to the new rates which are listed in the hearing, setting existing rates for telephone line-related services as maximum rates and enabling the Company to set lower prices in relation to these existing rates, and removing the supervision over rates of calls initiated by business customers using PRI channels.
7. In addition, in accordance with the hearing, if the interconnect fees change, it will lead to a respective change in the call-minute rates which include this component.

The company is studying the hearing documents and is preparing to submit its response by January 4, 2021. The Company believes that if the proposed changes are implemented it will have a material adverse effect on its financial results.

Some of the information included in this Immediate Report constitutes forward-looking information as defined in the Securities Law 1968, and involves assessments, assumptions and expectations, including the final decisions that will be made in the Hearing, the Ministry of Communications' assumptions during the hearing, demand for the Company's services and the behavior of other telecommunications providers. Accordingly, the information might not materialize or materialize in a manner different from which is described above and subject to actual occurrence of the above-mentioned estimates.

Below is a link to the hearing documents and Annexes as published on the Ministry's website:

https://www.gov.il/he/departments/publications/Call_for_bids/15122020_2

¹ Including interconnect fees to fixed-line destinations

² Including interconnect fees to mobile networks

Sincerely,

Bezeq the Israeli 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.