



Bezeq - The Israel Telecommunications Corp. Ltd.
(the "Company")

January 28, 2024

Attn.
Israel Securities Authority

Attn.
Tel Aviv Stock Exchange Ltd.

Immediate report – Entry into the electricity supply sector through the signing of a memorandum of understanding with Powergen Ltd.

1. On January 25, 2024, the Company's board of directors approved the Company's entry into the electricity supply sector and the agreement with Powergen Ltd. ("Powergen"),¹ a wholly-owned company of the Generation Capital Ltd. fund, which manages the energy operations of the fund, in a non-binding memorandum of understanding for strategic cooperation and establishment of a joint venture (the "MoU").

The MoU was signed in accordance with the Company's strategy, which includes identifying opportunities for expansion into adjacent areas that complement the Group's activities, and entering into sectors with high growth from the Company's core activities, while diversifying the portfolio and reducing dependence on regulatory risks (for further information, see section 1.8.2.3 – Additional strategic measures, in the Description of Company Operations in the Company's Periodic Report for 2022).

2. Background on the reform in Israel's electricity sector

As part of Israel's electricity reform, in 2018, it was determined that the supply segment relating to the purchase of electricity and its sale to consumers, including the consumer price and the issuing of invoices, will be gradually opened up to competition. While distribution, at least at the regional level, is almost entirely controlled by the Israel Electric Corporation Ltd. (the "IEC") and in any case, it can only be performed by one distributor (a natural monopoly), supply can be opened up to competition. The supply segment was open to competition for large-scale consumers, and from 2021, it started to open up gradually to competition for household consumers as well. Competition in the supply segment allows consumers to contract with a

¹ Powergen Ltd. (formerly Generation Energy Ltd.) manages the energy activities of Generation Capital Ltd., and corporations under its control hold electricity generation facilities on a significant scale, and also develops, constructs, and manages electricity generation and storage projects, directly and through corporations under its control.



private supplier instead of continuing to purchase electricity from the IEC. According to the decisions of the Israel Electricity Authority, customers with a smart meter (a continuous meter allowing remote reading) can be transferred from the IEC to suppliers without means of production, thus opening up the market to competition on a very significant scale, while the IEC is not permitted to offer discounts until it loses 40% of its share in the low-voltage market. According to BDO consulting company, it is possible than an estimated NIS 10 billion of the market share of the IEC will pass to the competitors by 2030.

3. Key points of the MoU

- 3.1 The MoU regulates the principles of cooperation between the Company and Powergen for electricity supply to household customers and to small- and medium-size business customers (the "Operating Sector").
- 3.2 A company jointly owned by the Company (50%) and Powergen (50%) will be established (the "Joint Venture"), which will hold a supply license for suppliers that do not hold production means, under the regulation published by the Israel Electricity Authority.
- 3.3 The Company, through the services provided to the project, will be responsible for marketing, sales, acquisition, and retention of customers, and for account management services to customers, including collection services and customer relations. Powergen will be responsible for providing electric power for the Joint Venture, both through electricity generation and storage facilities belonging to corporations held by it, and through the continued development, operation, and financing of projects for establishing and operating electricity generation and storage facilities, by itself or through corporations under its control. It should be clarified that investments in these projects will be made, directly or indirectly, by Powergen Group only, and Bezeq Group or the Joint Venture are not expected to make material investments in the Joint Venture. In the first stage of the Joint Venture, Powergen will also provide electricity trade and optimization services for the Joint Venture, under certain conditions as reflected in the MoU.
- 3.4 Powergen will offer the Joint Venture the electricity it generates, directly and indirectly, and the Joint Venture will purchase the electricity from it (under certain conditions), for as long as it is required, under long-term agreements with strict undertakings to purchase electricity in different mechanisms for setting prices. The rights for the generation of



green electricity by Powergen Group for the Joint Venture, including the rights for the issue of green certificates, will belong to the Joint Venture.

- 3.5 Upon establishment of the Joint Venture, the parties will provide, in equal parts, the amount required to finance its activities in the first year (it should be clarified that this is an immaterial amount for Bezeq Group).
- 3.6 The CEO of the company will be appointed the chairperson of the Joint Venture, and the directors appointed by the company will have a casting vote in the board of directors of the Joint Venture, for issues related to the purchase of electricity from Powergen Group and for issues related to marketing strategy and its implementation.
- 3.7 Bezeq and Powergen will each appoint half of the members of the board of directors. The chairman of the Joint Venture board of directors will be the CEO of Bezeq. All decisions will be made jointly, but directors appointed by Bezeq will have an excess vote on issues concerning transactions with the Powergen Group, the marketing strategy and its implementation.
- 3.8 After signing the MoU, the parties will take steps to sign a detailed agreement based on the principles set out in the MoU.
4. The Joint Venture is expected to be launched in the second quarter of 2024. Under the business plan included in the MoU, the Joint Venture aims to reach a market share of 400 thousand household customers and tens of thousands of business customers by the end of 2030.
5. The Company's entry into the electricity supply sector and the entry into effect of the MoU require an amendment of the objectives in the Company's Articles of Association, and for this purpose, a general meeting of the Company's shareholders will be convened to amend the Articles of Association,
6. The Company is assessing the expected accounting treatment for the Joint Venture in its financial statements. At present, it appears that the accounting will be in accordance with the equity method, and the Company's share in the Joint Venture's profits (losses) will be recognized as part of the Company's current business activity and presented in the Company's operating profit and EBITDA.
7. Some of the information included in this immediate report includes forward-looking information as defined in the Israel Securities Law, 1968, and is based, among other things, on



assessments regarding future developments in the electricity sector, the conduct and requirements of electricity customers, regulatory policy, and the marketing strategy of competitors. These estimates may not materialize, or they materialize in a way that is significantly different than that expected, among other things, depending on the variables set out above.

Yours sincerely,

“Bezeq” The Israel Telecommunication Corp Limited

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.