

Entrance into electricity supply sector through joint venture



Dear Friends,

We are at a significant moment for Bezeq - this is the first time in the company's history that it is entering into a new activity segment which is not in the telecommunications industry. One of the cornerstones of the Group's strategy is to identify opportunities for expansion into adjacent areas that complement the Group's core activities, while diversifying growth sources and reducing dependence on regulatory risks. Following a proactive, intensive and quite lengthy process, we have identified a new and significant activity area that will allow Bezeq to leverage its assets, including our customer base, leading marketing and operational capabilities, without losing management focus and without entering into significant investments, commitments, and risks.

Opening up the electricity sector to competition for supply to consumers and small and medium-sized businesses is a unique opportunity, which meets the criteria we defined in the strategy, and fits us as a national (utility) infrastructure company. Following the immediate report we published on the subject, I will expand further and answer questions that will surely arise.

What is Bezeq's connection with the electricity sector?

Supply of electricity, water, gas, and telecommunications has always been considered as "utilities", meaning basic infrastructure services supplied to customers by different infrastructure providers. As a nationwide telecommunications infrastructure provider and the leading and oldest telecommunications company in Israel, expansion into electricity supply to consumers and SMEs makes sense, and indeed it appears that the new major entrants to this segment will be telecom and gas (LPG) companies.

What advantage does Bezeq have in the electricity supply sector?

Bezeq's advantage lies in its leading retail capabilities, including its large customer base, strong brand and significant operational and financial

capabilities. Apart from the Israel Electric Corporation, which is not permitted to offer discounts until it loses 40% of its share in the low-voltage market, no other infrastructure company in Israel has access to 1.5 million customers. As such, Bezeq – with significant economies of scale – has natural potential to be a major player in a sector that is opening up to competition.

Why now?

The Israel Electricity Authority is advancing a significant reform in the electricity sector, which presents an unprecedented opportunity for Bezeq to enter an adjacent market segment and acquire a decent share of it over time.

Why does Bezeq need a partner?

After studying the market, drawing up strategic principles and a business outline for entering the electricity sector, we realized that in order to bring value to our customers, the JV will require (1) a significant amount of electricity sources through combined technologies (gas, PV, storage); and (2) relatively low electricity costs. To achieve this, we searched for a serious partner with electricity sources and pipeline of projects in the energy sector and we drew up a business plan focusing on the purchase of electricity from the partner at lower than market prices, and sharing the JV profits so that the partner can benefit from the upside.

What did international experience teach you about opening up the electricity sector to competition?

In other countries, such as the UK, Australia, and Ireland, the market share of the new players reached 30%-40% within 4-5 years after the market opened up to competition. We also saw that over time, there is market consolidation into 4-5 big players, and that there is an advantage for players who entered relatively early.

What is the expected CapEx and contribution to the Company's results?

Bezeq and the new JV are not expected to make substantial capital investments. It is the partner that will invest in power generation and storage facilities, including project financing. The decision to enter this sector arises from the potential contribution to Bezeq's profits and from the added value of diversifying the portfolio and creating an additional significant activity over time.

What are the key risks?

Entry into the electricity supply sector does not entail substantial risks for Bezeq, mainly because Bezeq does not plan to make substantial capital investments and has no commitment to minimum quantities of customers. Moreover, diversification of activity into the electricity sector actually reduces the impact of the current regulatory risk in the telecommunications market. Having said that, expansion into adjacent sectors such as this one involves risks inherent to the new sector, including the uncertain electricity sector due to various local and global factors.

In summary

We are facing a historic opportunity to expand Bezeq's activities into a new and developing segment, and we believe that Bezeq will bring to the market advantages that other operators do not have. This is a positive development in the company's business with great potential and low risk, which is due to intensive work by management with the aim of creating shareholder value through new initiatives, while capitalizing on existing assets and capabilities.

Bezeq's IR team and I will be pleased to provide any further color and explanations that may be required.

Best regards,

Tobi Fischbein, CFO

