

Project Buzz Definitive Proposal

Searchlight Capital Partners

January 16, 2019

Bcom Purchase Price Per Share / Proceeds to IGLD Bondholders ("Definitive Proposal")	<ol style="list-style-type: none"> 1. Searchlight Capital Partners' ("SCP") offer is to acquire Internet Gold -Golden Lines Ltd.'s ("IGLD") 64.8% stake in B Communications Ltd. ("BCOM") for NIS 20 per share, of which 100% will be paid in cash at closing (the "Transaction"). 2. We estimate that at this valuation, Series C and D bondholders of IGLD (collectively, the "IGLD Bondholders") will generate approximately NIS 530 million of total consideration (assuming 100% take-up by the IGLD Bondholders), equivalent to a 73% recovery on the face value of their NIS 728 million total claims as of September 30, 2018. 3. <u>Such consideration represents an approximately 27% premium to the current market value of the Series C and D bonds (i.e., NIS 530 million proceeds from the Transaction versus NIS 419 million of current trading value of Series C and D bonds).</u> 4. The NIS 530 million of total consideration to the IGLD Bondholders is comprised of (a) NIS 387 million from the sale IGLD's 64.8% stake in Bcom (19.4 million Bcom shares) plus (b) NIS 143 million from the value of the existing cash, equivalents and short-term investments on IGLD's balance sheet as of September 30, 2018. 5. Our Definitive Proposal is conditioned on IGLD delivering to SCP at Transaction closing shares representing at least 51.0% of Bcom shares outstanding (i.e., SCP is willing to transact with IGLD at levels at which SCP would acquire between 51.0% and 64.8% of Bcom shares outstanding). 6. The reduction in the price from that indicated in our Non-Binding Proposal dated December 11th, 2018 is a result of a series of material developments since December 11, 2018, including (a) the deterioration of the business prospects and liquidity profiles of both Bezeq and Bcom; and (b) the market environment in which both companies operate. Please see <i>Exhibit B</i> for a list of some of these material developments. During this approximately four-week period, the share prices of Bezeq and Bcom have declined from NIS 4.00 to NIS 3.28 per share (18.1% decline) and NIS 29.62 to NIS 19.03 per share (35.8% decline), respectively. 7. Subject to resolution of outstanding matters on mutually acceptable terms, we are prepared to promptly negotiate and conclude the definitive transaction documentation in form acceptable to both parties (in each party's sole discretion), however, to commit the time and resources required to do so, we expect IGLD to enter into exclusivity agreement by 17.00 Israel time Tuesday, January 22nd (<i>attached as Exhibit E</i>).
Sources / Certainty of Financing	<ol style="list-style-type: none"> 1. We would finance the acquisition of IGLD's stake in Bcom with cash from SCP's existing managed equity funds, of which assets under management currently exceed \$3.9 billion, in addition to our local minority partner's equity co-investment, as required by law. 2. We are at an advanced stage with our local Israeli partner and will be prepared to execute definitive documentation concurrent with executing all related definitive agreements with IGLD. 3. We would not require any debt financing or any third-party equity beyond the aforementioned equity co-investment of our local partner (as required by Israeli law).
Timing to Signing & Closing	<ol style="list-style-type: none"> 1. We are prepared to work expeditiously in order to negotiate, conclude and execute definitive documentation with IGLD, to both parties mutual satisfaction, within ten (10) business days of receiving the appropriate access to satisfy our confirmatory information requirements listed in <i>Exhibit C</i> (no financing contingencies). 2. An illustrative timeline to reaching a definitive agreement with IGLD by January 31st is attached (<i>Exhibit A</i>), although we would be prepared to execute an agreement beforehand once finalized. 3. We do not anticipate any delays in closing the Transaction.

Completion of Due Diligence	<ol style="list-style-type: none"> 1. Due diligence is substantially complete across all areas. 2. There is a discrete handful of confirmatory items largely relating to loan agreements, outstanding litigation claims and related insurance coverage we require before executing definitive documentation. 3. These items are outlined in <i>Exhibit C</i> and can be satisfied in an expedited fashion, concurrent with the process to negotiate and finalize definitive documentation.
SPA	<ol style="list-style-type: none"> 1. We have completed a full markup of the SPA that was posted to the VDR on December 27, 2018. Upon request, we are prepared to promptly provide such markup. 2. We are confident that any outstanding issues can be resolved within a few days, and we are prepared to meet in person in Israel to expedite this process.
Exclusivity	<ol style="list-style-type: none"> 1. To the extent that we have not entered into exclusivity agreement by 17.00 Israel time on Tuesday, January 22nd we will not be able to proceed. 2. We are prepared to progress the SPA and related areas necessary for signing the Transaction pursuant to a period of exclusivity lasting fifteen (15) business days. 3. We have attached a proposed exclusivity agreement for execution (<i>Exhibit E</i>).
Internal Authorizations / Approvals	<ol style="list-style-type: none"> 1. We have received all necessary approvals from our Investment Committee to make this Definitive Proposal and enter into definitive documentation. 2. The deal team has full authority to negotiate and execute all elements of definitive documentation. 3. We are confident that the speed and efficiency of our collective approach to the Transaction, together with our knowledge of the sector enables us to execute the definitive documentation within IGLD's desired timeframe and close the Transaction on an expedited basis thereafter.
Ministry of Communications	<ol style="list-style-type: none"> 1. Over the past six months, we have held a significant number of interactions with the key decision-makers at the Ministry of Communications ("MoC"), including Director General Nati Cohen. 2. We have had three in-depth meetings with the MoC over the past 6 months, specifically on September 4, September 28 and December 18, 2018. A summary of these interactions is attached (<i>Exhibit D</i>). 3. In addition, we have completed an extensive review of the application to the MoC and are prepared to submit it to the MoC concurrent with the signing of definitive documentation for the purchase of IGLD's shares in Bcom. Upon request, we are prepared to promptly provide an outline of the contents of our application package. 4. Based on the productive nature of our various interactions and the positive feedback we have received from the MoC, as well as our work to date on the application to the MoC, including an internal review of our investor base, we are confident in our ability to receive favorable and expedited approvals from the regulatory authorities reviewing the Transaction. We believe that the backgrounds of our firm's partners and our track record of obtaining regulatory permits in the US and other Western European markets further supports our application.
Management	<ol style="list-style-type: none"> 1. Bezeq is operated by a strong executive management team led by Shlomo Rodav. As potential shareholders and directors of Bezeq and Bcom, we intend to fully support the current management team and their strategy.

	2. We are confident that the Bezeq management team share our view of the strong fit/alignment between them and Searchlight, and encourage you to engage with Shlomo Rodav, Dudu Mizrahi and Ran Guron about our interactions to date.		
Conditions Precedent to Closing	<ol style="list-style-type: none"> 1. Confirmation from the requisite number of IGLD Bondholders that claims have been released, such that SCP can own the equity of at least 51.0% of the outstanding shares of Bcom. 2. Formal approval by the MoC for SCP, and issuance of the control permit. 3. Appointment of SCP's designees to a majority of the Bezeq and Bcom boards as of the closing of the Transaction. 4. No incremental debt at Bcom and TBD minimum cash level at Bcom at closing of the Transaction. 5. Such other customary closing conditions. 		
Contact Persons	<p>Should you have any questions regarding our Definitive Proposal, please do not hesitate to contact Eric Zinterhofer or Darren Glatt from Searchlight, whose details are below:</p> <table> <tr> <td> <p>Eric Zinterhofer Founder ezinterhofer@searchlightcap.com Mob: +1 646 345 2837</p> </td><td> <p>Darren Glatt Partner dglatt@searchlightcap.com Mob: +1 917 270 7747</p> </td></tr> </table>	<p>Eric Zinterhofer Founder ezinterhofer@searchlightcap.com Mob: +1 646 345 2837</p>	<p>Darren Glatt Partner dglatt@searchlightcap.com Mob: +1 917 270 7747</p>
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Exhibits	<ol style="list-style-type: none"> A. Timeline to Signing B. Material Developments Since Last Proposal C. Confirmatory Diligence Items D. Summary of Interactions with MoC E. Exclusivity Agreement 		
The Proposal	<p>This Definitive Proposal is a definitive indication of our interest in the Transaction. This Definitive Proposal does not constitute a binding agreement to consummate the Transaction nor does it constitute an agreement to negotiate or enter into definitive documentation with respect thereto.</p> <p>This Definitive Proposal and any negotiations hereunder shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the rules or principles of conflict of laws thereof that would mandate or allow the application of the laws of any other jurisdiction. Any dispute arising out of this Definitive Proposal shall be submitted exclusively to a state or federal court located in the State of New York, and the parties hereto hereby irrevocably agree to submit to the jurisdictions of such courts. THE PARTIES HERETO HEREBY WAIVE ANY RIGHTS TO TRIAL BY JURY WITH RESPECT TO ANY SUCH DISPUTE.</p>		

Searchlight Capital Partners, L.P.

By: Searchlight Capital Partners, LLC, its general partner


By: **Darren Glatt**

Title: Authorized Person