

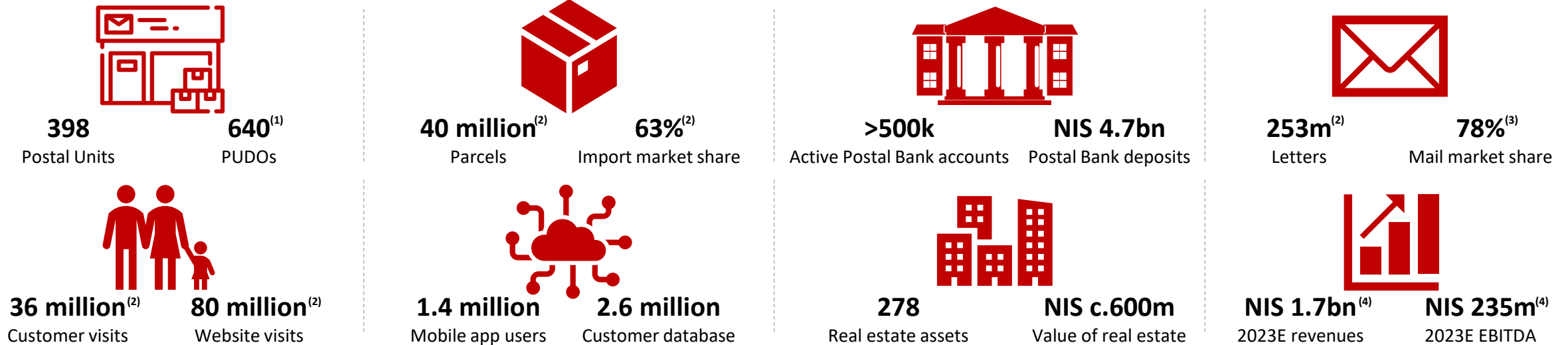


The Israel Postal Company
Executive Summary
July 2023

The Israel Postal Company (“Israel Post” or “ILP”)

As Israel’s national postal company, ILP carries a rich history spanning 75 years, with over 1,000 service points, 3,880 FTEs and tens of millions of customer visits annually

Key figures



Company overview



The Israeli national postal company was founded in 1948, with the establishment of the State of Israel. In 2006, it transformed into a government-owned corporation, operating in its present structure



Headquartered in the center of Israel and led by CEO David Laron, the company employs 3,880 FTEs



Israel Post maintains an extensive supply chain, deploys a wide distribution network capable of reaching every Israeli address, and is one of the country’s largest retail networks, with over 1,000 service points, including 398 postal units and 640 PUDOs



ILP’s customer-centric approach spans all segments, with a wide branch network and multiple touchpoints and a large customer database. Synergy between segments is derived from a shared customer focus that permeates every aspect of ILP’s operations

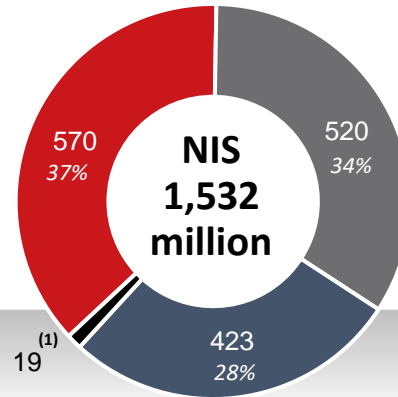
Notes:

1. Pick-up drop-off points
2. 2022 data
3. Market includes regular mail, 24/72-hour mail, bulk mail, certified mail, newspapers and pamphlets
4. Management estimates

ILP's customer-centric approach spans all segments

Israel Post has three inter-related and complementary business verticals, centered around provision of essential services to Israeli residents

ILP's 2022 revenues



Courier, Express and Parcel (CEP)

Delivery of parcels, mostly internationally, with a focus on e-commerce

Import

(most notably from Amazon, AliExpress, Next, etc.)

Export

Domestic CEP services

Supplementary services
(e.g., return services)



Exclusive Universal Postal Union ("UPU") membership



Exclusively operating a customs terminal



Import market leader with a 63% market share



strategic distribution agreements with AliExpress⁽²⁾, Amazon and Next



Postal Bank

Provision of various financial services, leveraging the company's distinct and valuable assets and extensive branch network

Billing services

(e.g., taxes, bills, and fees)

Checking accounts

Prepaid cards

Additional services

(e.g., international transfers, currency exchange, etc.)



c.900k customers, including >500k checking accounts in addition to 600k prepaid card holders



Far-reaching branch network with counter services



Large, unique customer base with long-term retention potential



Attractive billing provision agreements with governmental and other entities



Traditional Mail & Retail

Provision of "traditional" domestic postal services, including bulk and regular mail

Bulk mail

Individual mail

Value-add services

(i.e., certified mail, 24hr mail, etc.)

Retail services

(i.e., selling products and services in-branch)



Adjustments to service requirements



Removal of tariff supervision



Implementation of differential pricing



Increased management flexibility

Notes:
1. "Other revenues" – Mostly rental income
2. Through Cainiao, Alibaba's shipping and logistics arm

Courier, express and parcel (CEP)

The Israeli CEP market has been growing rapidly, mostly on the back of e-commerce tailwinds, and is expected to continue growing at a fast pace

Market trends

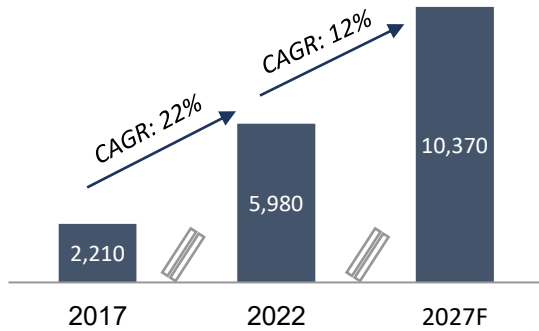
Rapid growth in e-commerce

Low e-commerce penetration implying high growth potential⁽²⁾

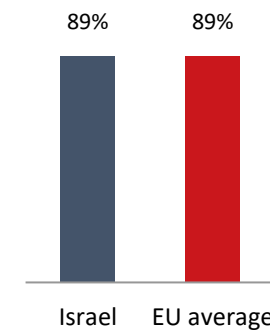
Strong macro tailwinds⁽³⁾

Increased competition with a focus on SLA

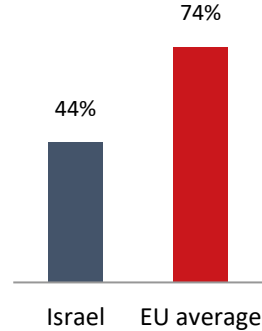
Israeli e-commerce transaction turnover (\$,m)⁽¹⁾



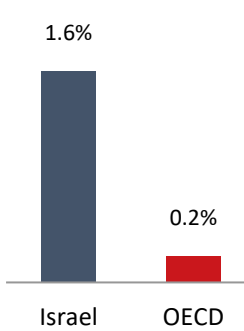
Internet penetration rate



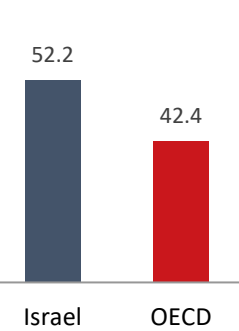
E-commerce penetration rate



2021 population growth



2021 GDP per capita (\$,k)



Local players

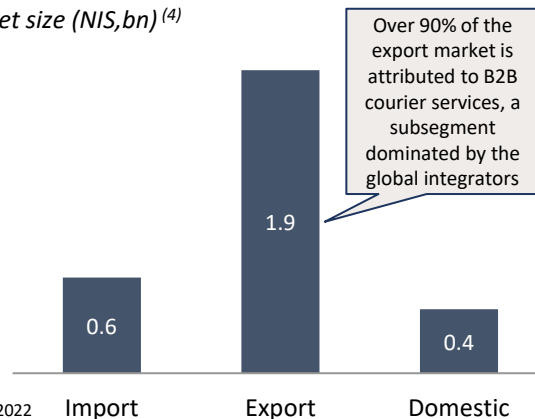


Global integrators

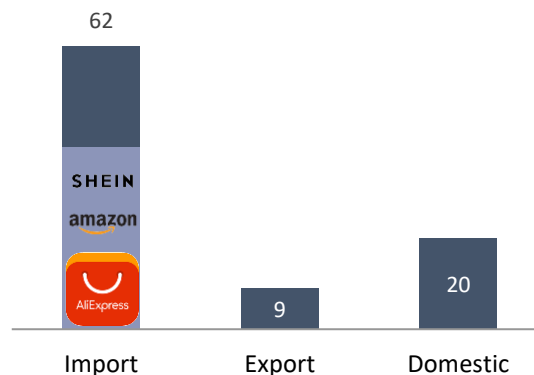


Key market figures

Market size (NIS,bn)⁽⁴⁾

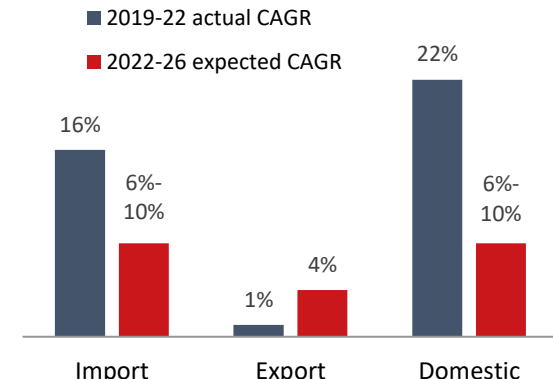


Total items processed (units,m)⁽⁵⁾



Strong actual and expected market growth⁽⁴⁾

Driven by the import and domestic subsegments





Notes:

1. Statista
2. European E-commerce 2022
3. The World Bank
4. Strategy&
5. SimliarWeb, Israel Post

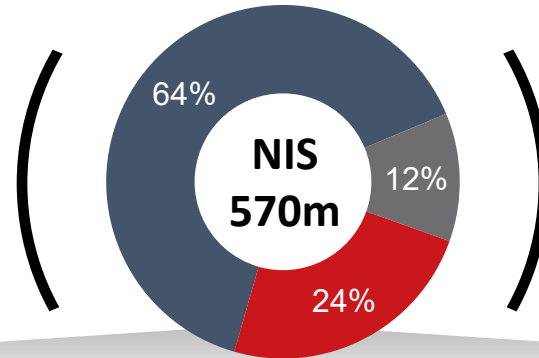
CEP (cont'd)



Israel Post is a clear market leader in the key import sub-segment, providing comprehensive services that encompass the entire parcel journey, from customs to doorstep

Israel Post's CEP activities are underpinned by its unique assets and capabilities

-  UPU membership
-  Exclusively operating a customs terminal

2022 CEP revenues (NIS,m)



-  Centrally located logistics center
-  The largest network of PUDOs in Israel

Import

- Israel Post is the clear market leader with a 63% market share (in NIS terms)
- The company maintains **strategic distribution agreements with AliExpress⁽¹⁾, Amazon and Next**
- As Israel's national post company and its representative in the Universal Postal Union (UPU), the company enjoys a 100% market share across UPU deliveries (distribution of deliveries that were imported to Israel by other national post companies)
- Market share has been on a decline due to the emergence of local cargo competitors with high SLA and competitive pricing



Market '22-'26 expected CAGR is 6-10%

Export

- The company offers diversified export services at all price ranges, including Standard services, Eco-Post and EMS (door-to-door)
- Export activities are mainly for small exporters and have a volume/weight limit
- Market share has declined in recent years due to tariff increases and due to general customer preference to deliver through the global integrators due to their SLA



Market '22-'26 expected CAGR is 4%

Domestic

- Israel Post offers diversified B2B and B2C domestic delivery services, including door-to-door and door-to-counter
- Market share decline in recent years due to the allocation of resources to the import operations, coupled with the emergence of local competitors boasting improved SLA



Market '22-'26 expected CAGR is 6-10%

Postal Bank

Provision of various financial services while leveraging unique assets in order to become the leading provider of financial solutions to specific population segments

Key information

- The Postal Bank provides a wide range of financial services, in accordance with Israeli postal law, and does not own a banking license
- Owns a greater number of branches than the combined total of the three largest banks⁽¹⁾
 - Regulations impose certain limitations on loan and deposit interest offerings that, as of today, ILP overcomes with various alternative solutions and strategic partnerships
 - **Concurrently, the Postal Bank earns interest income on its own deposited funds**
 - Benefits greatly from current and long-term expected high-interest environment
- Capitalizing on its retail presence, the Postal Bank enjoys direct interface with millions of diverse customers, with three key target growing segments: (i) the Arab Segment; (ii) Foreign workers; (iii) Small businesses
- Partner in exclusive Israeli interbank clearing systems (cheques, Masav⁽²⁾, Zahav⁽³⁾)
- Most Postal Bank tariffs were supervised by the State, but price supervision and additional restrictions have recently been lifted
- Owns a license to operate an insurance agency and the advantageous ability to sell policies at opportune times (e.g., offering car insurance promptly after a transfer of ownership)

Massive customer base with long-term retention potential

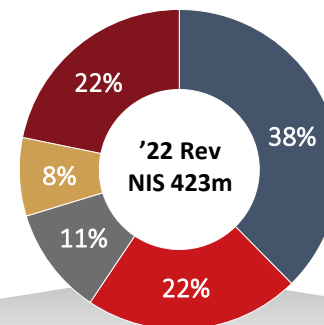
c. 900k engaged customers	>500k active accounts	c.600k cards The largest prepaid card issuer in Israel
398 branches with counter services, country wide	c.16m bills paid in branches annually	c.22.3m Transactions by casual customers in 2022
NIS c.1.3bn turnover in prepaid cards	NIS c.4.7bn balance of public deposits	c.50% of active accounts are attributed to Arab segment

Source: Israel Post, Strategy& analysis, Deloitte Israel, 2023

Notes:

1. Considering branches with counter services
2. Masav – Bank Clearing Center Ltd.
3. Zahav system – a Hebrew acronym for Real-Time Credits and Transfers

The Postal Bank provides a wide range of financial services

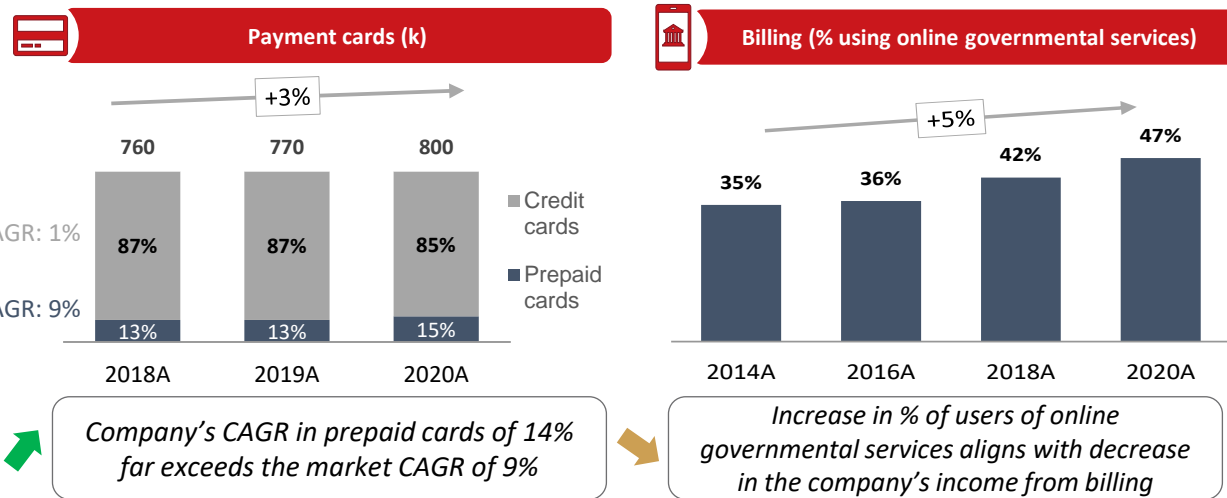
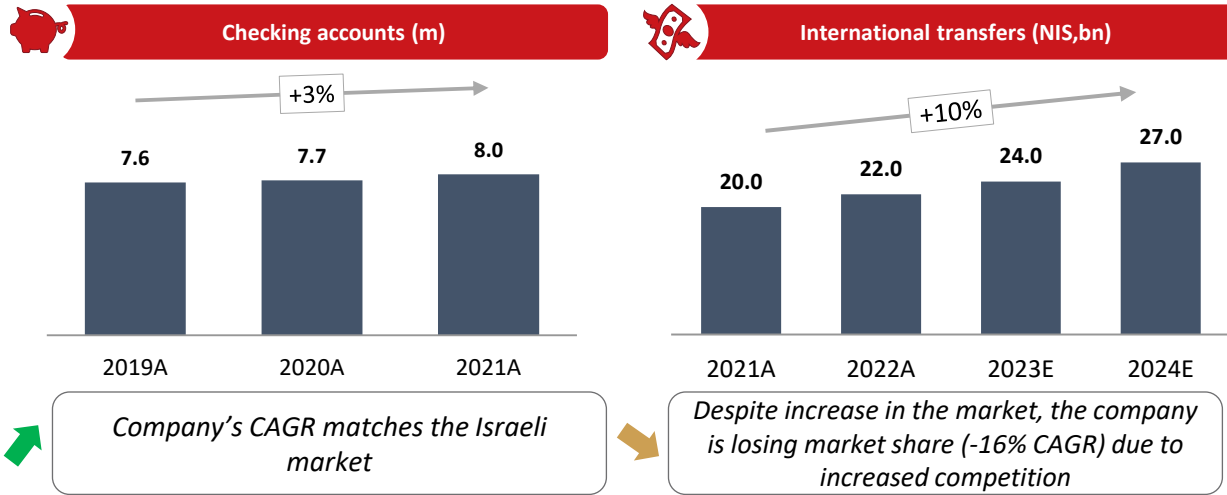


Billing and online services	Checking accounts	Prepaid cards	International transfers	Other
<ul style="list-style-type: none"> ■ Billing services for most of Israel's governmental, municipal and other large public entities ■ Billing services for large private corporations e.g., cellular and gas providers ■ Interfacing with said entities across many layers, including tech, finance, etc. 	<ul style="list-style-type: none"> ■ Management of checking accounts and deposits in local or foreign currency ■ Offering includes a wide range of operations, e.g., withdrawals, money transfers, etc. ■ Encouraging the use of a debit card for ATM withdrawals by increasing the possible withdrawal amounts 	<ul style="list-style-type: none"> ■ Issues prepaid Visa and Mastercard branded cards ■ Generates revenues from the sale of the cards, charging, and exchange rate differences 	<ul style="list-style-type: none"> ■ Provides global transfer and remittance services through Western Union Network, for whom Postal Bank serves as an Israeli agent ■ Provides money transfer to global bank accounts through Eurogiro Network 	<ul style="list-style-type: none"> ■ Including financing income, currency exchange, special projects, clearing services and ATMs

Postal Bank (cont'd)

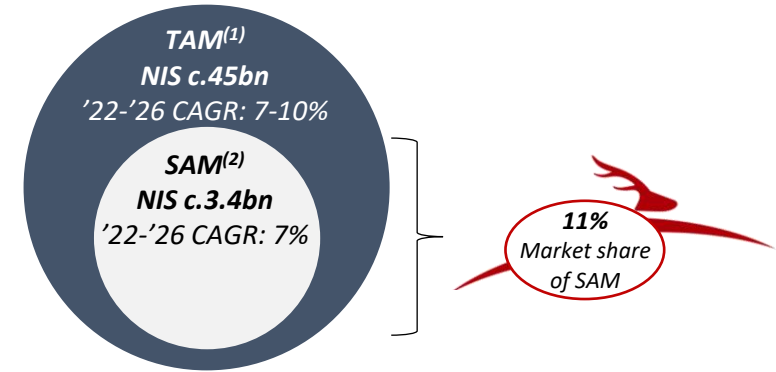
Company's operations align with market trends, except for international transfers, where income volume is declining despite overall market growth

Key operating segments – Israeli market overview



Market landscape

Market size and share



Players in the market

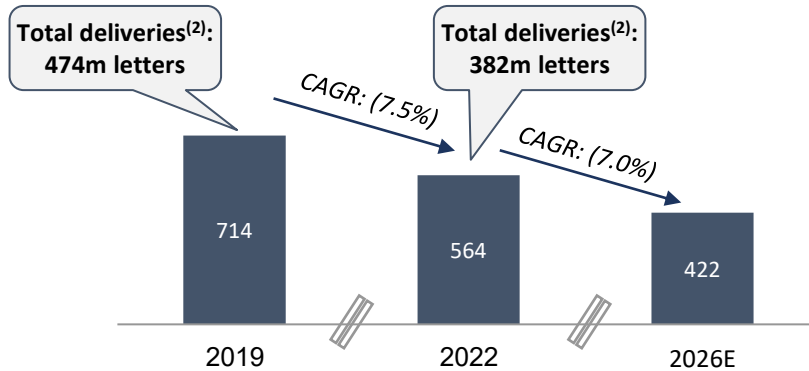


Traditional mail

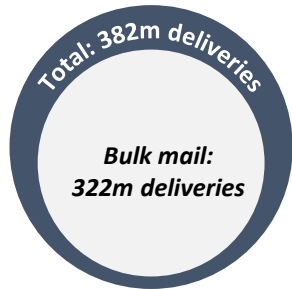
The market for traditional mail is on a steady decline due to digital alternatives, but the introduction of regulatory changes is a game-changer for Israel Post

Market overview

Total market size (NIS m)⁽¹⁾:



Bulk mail makes up the majority of postal deliveries⁽²⁾



- Bulk mail refers to a wide circulation of mail items to many recipients while meeting several sorting conditions
- Bulk mail can be uniform (e.g., advertisements) or individualized (e.g., statements, bills)
- Bulk mail is usually printed at large printing houses that maintain relationships with customers
- The distribution market is controlled by Israel Post and Meser

Bulk mail distribution chain

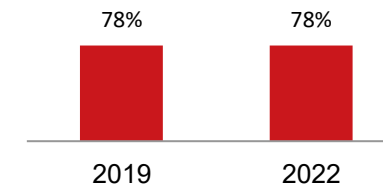


Israel Post

Business overview

- The company has a 100% market share in most traditional mail services, however in 2022 the market was opened for competition, and thus share might change over time
- In the bulk mail segment, ILP maintained a 60% market share for several years (in delivery terms), which grew to 62% in Q1-23 due to regulation changes
 - 25% of Israel Post's bulk mail market share (15% of the total market) is attributed to loss-making deliveries diverted to the company by competitors, taking advantage of Israel Post's regulatory service provision obligations, many of which have recently been altered (see below)
- Revenues declined despite consistent market share

Market share



Regulatory considerations

- Israel Post is subject to Universal Service Obligation, controlled tariffs for some services, minimal distribution frequency, etc.
 - These obligations have hindered the company's overall financial performance, with a focus on the Mail segment
- **However, significant regulatory adjustments were recently announced by the government**, including reduced distribution frequency, reduced branch coverage, removal of tariff supervision and the ability to offer differential pricing, which has already led to price hikes and could enable subsequent tariff increases
- Refer to slide 15 for additional info about the updated regulation



Retail footprint

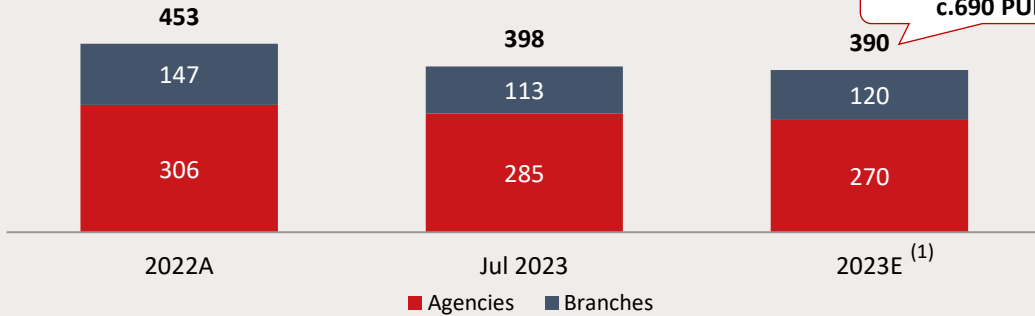
One of the largest retail networks in the country, meeting tens of millions of customers every year in over 1,000 service points, including 398 postal units and 640 PUDOs

One of Israel's leading retailers with 398 postal units and 640 additional PUDOs

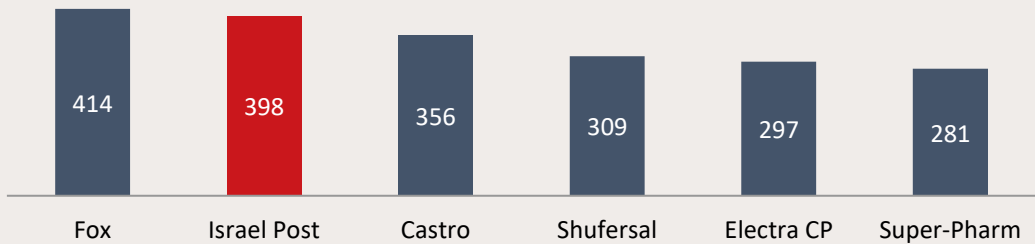
Key figures

Recently updated regulation enabled the closing of postal units and accordingly, the number of postal units is in decline...

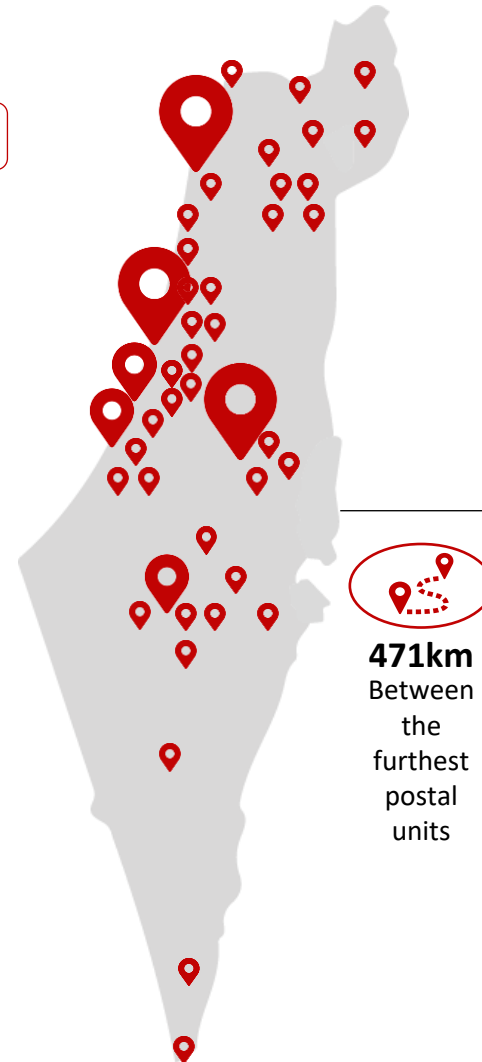
As well as an additional c.690 PUDOs



...but Israel Post still maintains one of the largest retail networks in the country...



...generating substantial distribution advantages and facilitating access to many customers, which could be utilized through collaborations with leading retailers



Notable postal units



Tel-Aviv, Ibn-Gabirol st. - 235 sqm



Ramat-Gan, Bialik st. - 601 sqm



Haifa, Palmer Gate st. - 500 sqm



Nazareth, Tawfiq Ziad st. - 236 sqm
Source: Google Street View



398

Postal units



36m

Annual customer visits



208 sqm

Average branch size



103

Postal units in Israel's 10 largest cities



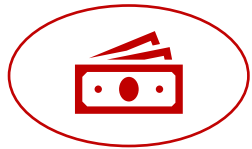
Real estate portfolio

ILP owns 278 real estate assets, widely spread across Israel, valued at c. NIS 600m

Key figures



278
Assets

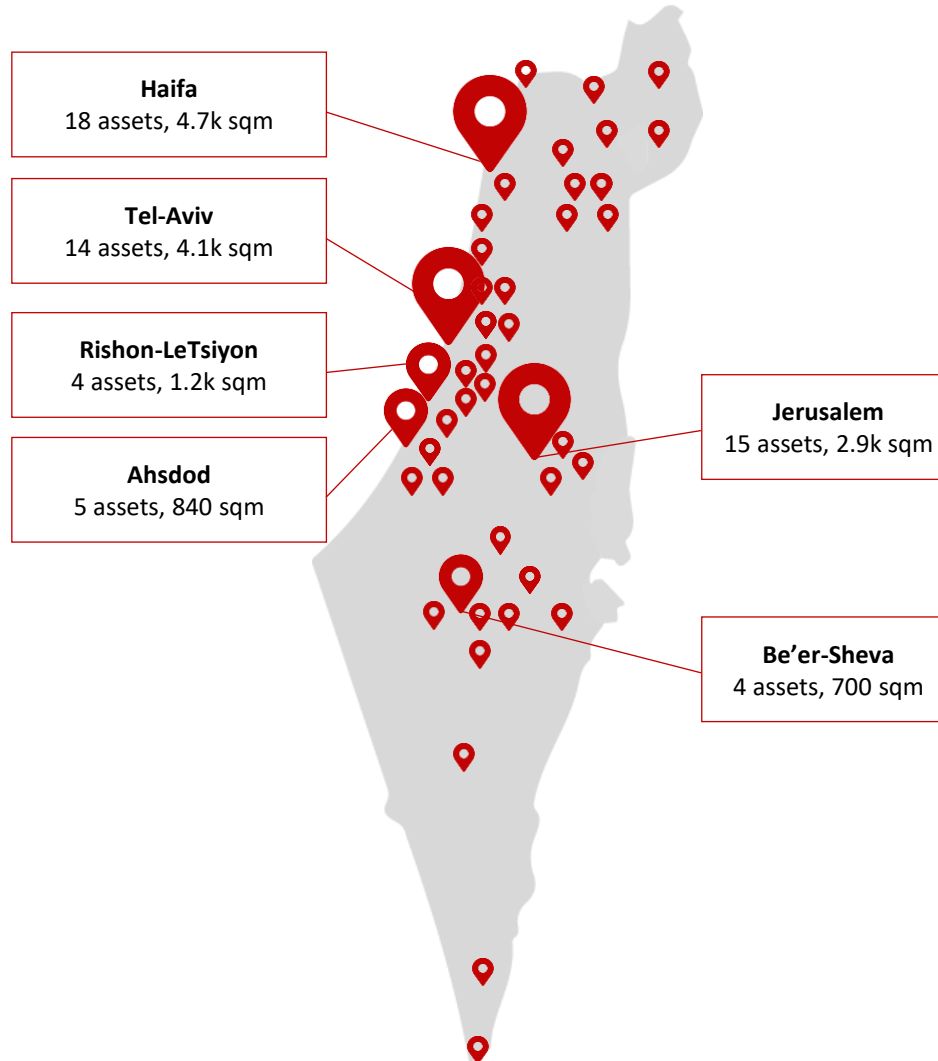


NIS c.600m
Value



40k sqm
Total area

Extensive portfolio, spread across the country



Notable assets



Tel-Aviv
Soncino st. 1.7k sqm



Rishon-LeTsiyon
Herzl st. 828 sqm



Bat-Yam
Haatzmaut st. 803 sqm



Haifa
Hanevi'im st. 885 sqm



Tiberias
Al-Hadif st. 653 sqm



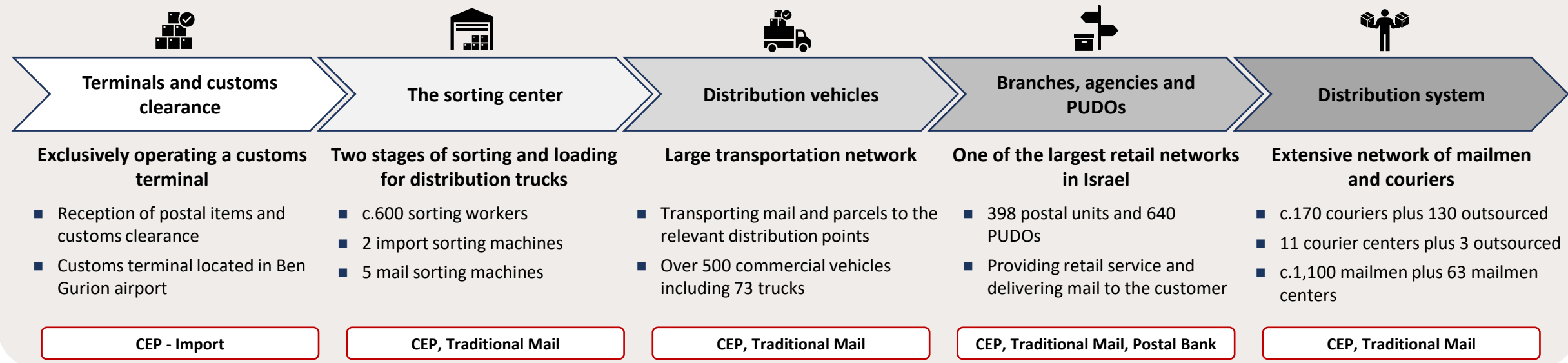
Holon
Hahistadrut st. 644 sqm

Source: Google Street View

Company-wide capabilities

Israel Post benefits from an extensive supply chain and maintains additional substantial physical, digital and regulatory assets

ILP maintains an extensive supply chain



Commercial and regulatory assets



UPU membership – exclusive operations with other national post companies



Agreements with the State regarding provision of payment solutions and distribution of documents



Strategic distribution agreements with AliExpress, Amazon and Next



Digital assets



1.4m app users

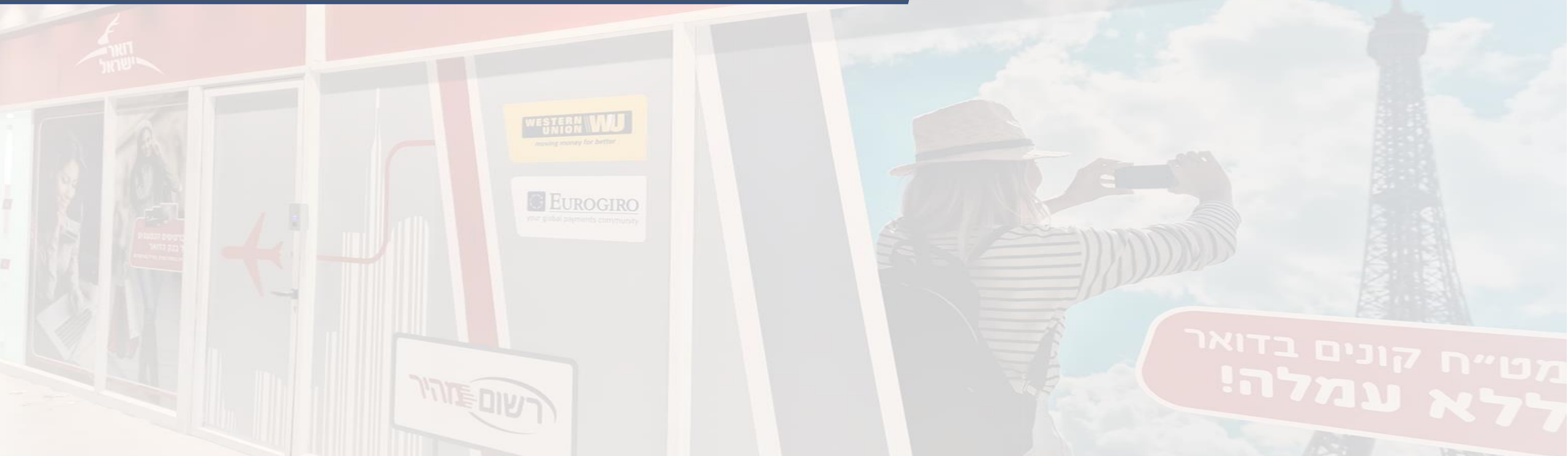


Huge database of 2.6m customers



Massive website traffic of c.80m p.a.

Upturn



Recovery plan overview

A key part of the ILP's upturn was the execution of a comprehensive recovery plan that was signed in September 2022

Recovery plan

September 2022



Financing agreement with the State



HISTADRUT
The General Federation
of Labour in Israel

Collective agreement with the employees



Retirement of 1,050 FTEs (c.20% of ILP's workforce) and state funding of retirement expenses estimated at NIS c.800m, in exchange for ILP transferring significant real estate valued at NIS c.600m



Option to retire up to 500 additional FTEs (c.13%)



Additional financial benefits, including NIS 100m capital injection, provision of subordinated loans, and exemption from capital gains tax on real estate assets transferred to the State



Enabling operational and managerial flexibility, such as by employing mailmen as couriers, and removing the minimum employee quotas the company had to meet

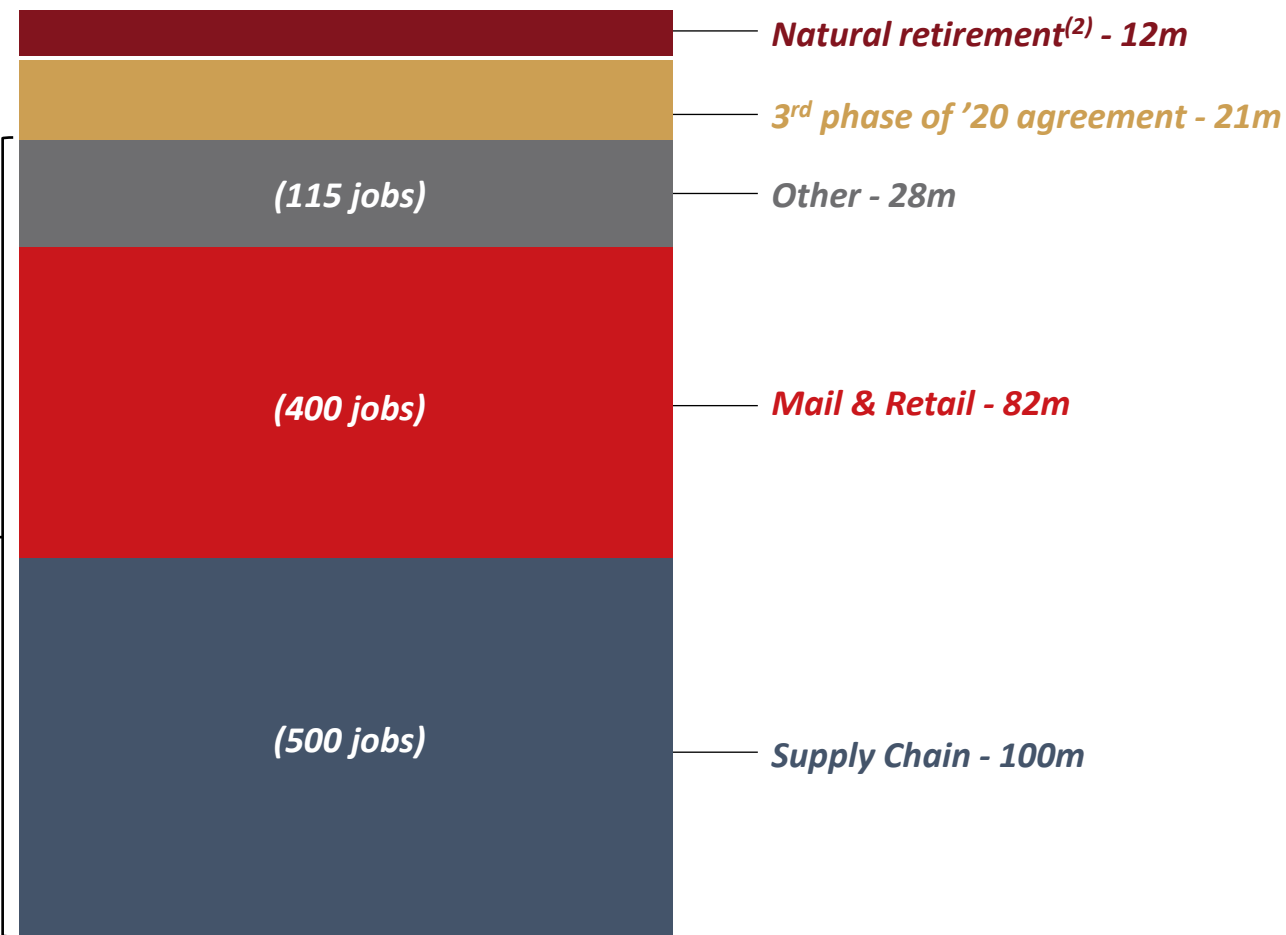
Cost cutting initiatives

Reduction in workforce, driven mostly by the recovery plan, is expected to reduce annual salary expenses by NIS 243m

Annual cost saving from reduction in workforce⁽¹⁾

Commentary

NIS 243m



Recovery plan retirement:
Total cost savings: **NIS 210m p.a.**

A total reduction of 1,050 FTEs as follows—

1. 560 FTEs in Dec '22
2. 455 in Jun '23
3. 35 by 2025⁽³⁾

- In December 2020, a collective agreement was signed between the company and the Workers' Union, stipulating that 300 FTEs would retire in three phases between 2020 and 2022
- In September 2022, a financing agreement between ILP and the state was signed, for the recovery of the ILP
- As part of the recovery agreement, additional 1,050 FTEs would retire, again in 3 phases, at a total estimated cost of NIS c.800m
- Retirement of said 1,050 FTEs is expected to reduce annual salary expenses by NIS 210m p.a.

Source: Strategy& analysis, management estimates

- Notes:
1. Cost saving as of 2026E, based on the Company's current strategic plan and its underlying assumptions
 2. Natural retirement cost savings expected to stand at NIS 3m in 2023 and grow by an additional 3m p.a. between 2023-2026
 3. 5 FTEs until 31/12/2023, 15 FTEs until 30/06/2024, and 15 FTEs until 30/06/2025; these FTE reductions have yet to be allocated between ILP's segments

Updated regulation

The company's regulatory framework was recently amended, and regulatory adjustments were introduced



- Decreased postal unit coverage requirements
- Decreased delivery frequency obligations
- Reduction of operating hours of branches
- Cancellation of 'moving mail'
- Enhanced management flexibility to elevate the quality of service

Increase operational efficiency and reduce expenses



- Removal of price supervision in the traditional mail market and in the Postal Bank
- The removal allows to plan and execute suitable pricing strategies, as well as the implementation of a differential pricing mechanism

Increase revenue



- Ability to launch new services without prior government approval (e.g., storage, premium services, etc.)

Widen scope of services

The updated regulation is a game changer for Israel Post, driving revenue increase and reduction of operational expenses, allowing the company to be competitive in both pricing and service offerings while maintaining greater operational flexibility

New management team

Achieving significant improvements in a short period of time and exceeding budget targets, thanks to a highly business-oriented management approach and a results-driven team



David Laron – CEO

Joined ILP in June 2022, in order to lead ILP into a new era through a course of recovery and privatization, leveraging his extensive managerial experience. David joined with extensive management experience from the private sector

Previous workplaces:



Keren Aslan – CFO

Keren held senior management positions in large companies; She serves as a director in several bodies

Previous workplaces:



Kobi Nudelman – VP, HR

Kobi has over 20 years of experience in senior management positions, including in human resources management and labor relations

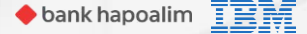
Previous workplaces:



Merav Spektorovsky Sasson – Postal Bank, CEO

Merav has 14 years of rich experience in the banking field, serving in a variety of senior positions.

Previous workplaces:



Eran Kristal – VP, Commerce

Eran has more than 25 years of managerial experience in the field of sales to private and business customers

Previous workplaces:



Ofer Karp – VP, Supply Chain

Ofer has 20 years of management experience in the fields of supply chain, operations and customer service

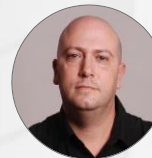
Previous workplaces:



Eytan Ohayon – VP, Retail and Post Operations

Eitan has over 20 years of experience in managing large sales and logistics systems in retail

Previous workplaces:



Amir Edri – Chief of Staff

Amir has over 12 years of expertise in business development, managing budgets, and overseeing finance for large-scale projects

Previous workplaces:



Eli Galitzki – VP, IT

Eli has more than 30 years of experience in managing projects and computer systems in large organizations

Previous workplaces:



Adv. Dan Carmeli – VP, Law and regulation

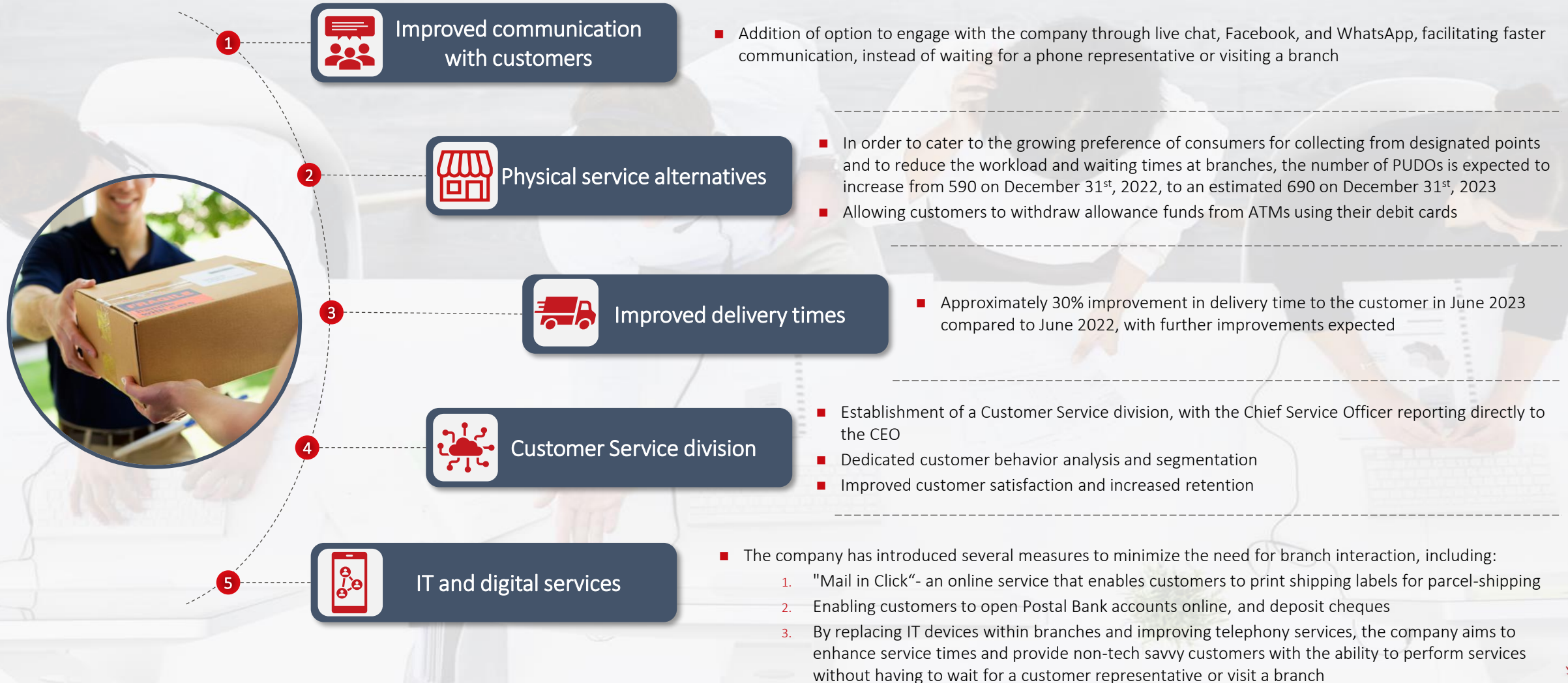
Dan has over 20 years of experience in the fields of law and regulatory processes, including commercial law, labor relations and legal representation

Previous workplaces:



Focus on customer experience

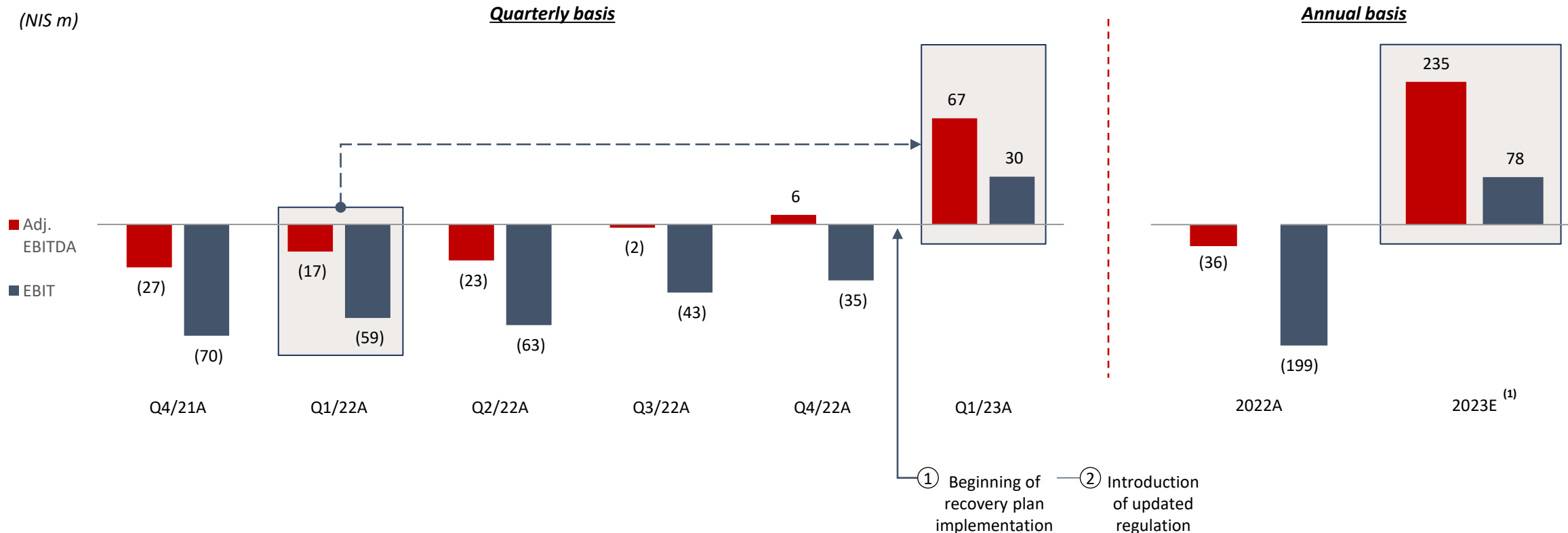
New management has taken notable steps aimed at increasing customer engagement and satisfaction



Financial snapshot

ILP achieved profitability in Q1-2023, on the back of successful implementation of the recovery plan, operational improvements and favorable market conditions

Adj. EBITDA and EBIT overview



Implementation of recovery measures has so far been highly successful with the ILP becoming **Adj. EBITDA and EBIT positive in Q1/23, and outperforming its budget over the last 2 quarters**

Strategic plan



Strategic plan overview

Leveraging nation-wide footprint to capture the CEP opportunity as well as financial opportunities

Main strategic pillars



CEP – the leading player in Israel

- Creating the country's best supply chain
- Significant SLA improvement
- Gaining market share and benefitting from market tailwinds



Postal Bank – the leading provider of financial solutions to specific population segments

- Becoming the leading financial player among unique customer segments
- Expanding the portfolio of financial services (e.g., insurance services)
- Provision of credit solutions to SMBs via partnerships and JVs

Additional strategic layers



Sustainable business model for traditional mail



Introduction of self-service terminals expected to boost customer satisfaction



Strategic partnerships with leading online retailers



Retail opportunities



Upgrading IT infrastructure



Real estate value maximization

Basis for implementation of strategy

Leveraging existing assets and capabilities



Unparalleled retail & banking presence



Strong logistical capabilities



c.900k Postal Bank customers



80m annual website visits



2.6m customer database

Operational excellence

driving improved SLA and cost-savings

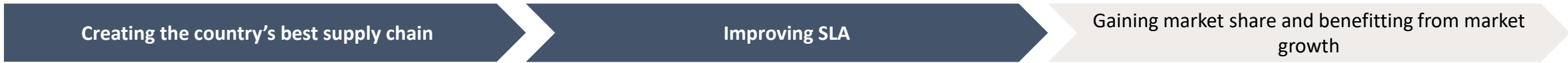


Automation and digitalization of sorting



Optimization of distribution network

The leading CEP player in Israel



Creating the country's best supply chain by improving Israel Post's sorting and distribution capabilities


Sorting



Sorting is currently mostly manual

- ✗ Reduced output
- ✗ Significant headcount requirements





Investment

- Purchase of automatic sorting machines
- Refinement of processes



Mostly automatic sorting

- ✓ Substantial cost savings
- ✓ Increased accuracy in delivery
- ✓ **Substantial decrease in the total sorting time**


Distribution



Inefficient distribution scheme

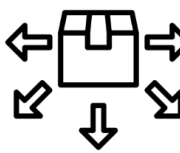
- ✗ Lower output per courier
- ✗ More expensive cost per delivery





Optimization

- Performance-based compensation
- Technology enabled route optimization
- Unifying mailmen and courier activities



Efficient distribution scheme

- ✓ Substantial cost savings
- ✓ Increased accuracy in delivery
- ✓ **Substantial decrease in the total distribution time**

Supply chain upgrades to drive improved SLA



Decreased supply times driving shorter delivery times

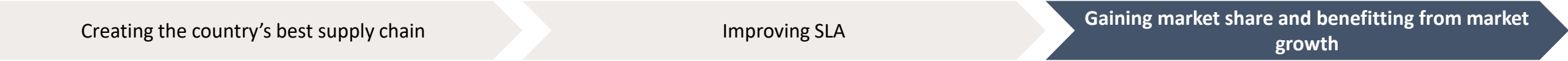


Increased delivery accuracy driving higher delivery success rate



Substantial cost savings driving ability to reduce prices

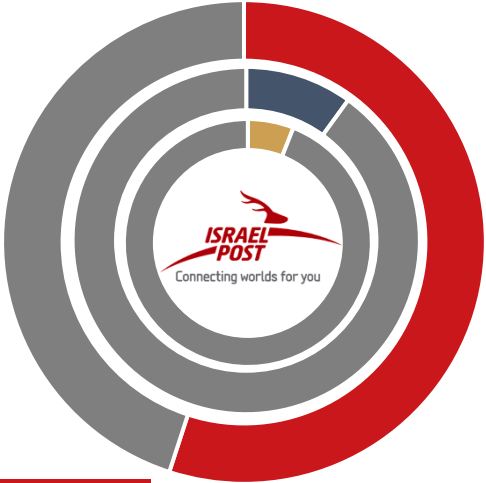
The leading CEP player in Israel (cont'd)



2023E market share

Market set to continue growing strongly

2026E market share ⁽¹⁾



Import: 57%
Domestic: 10%
Export: 6%



Shorter delivery times



Competitive pricing



Increased delivery success rate



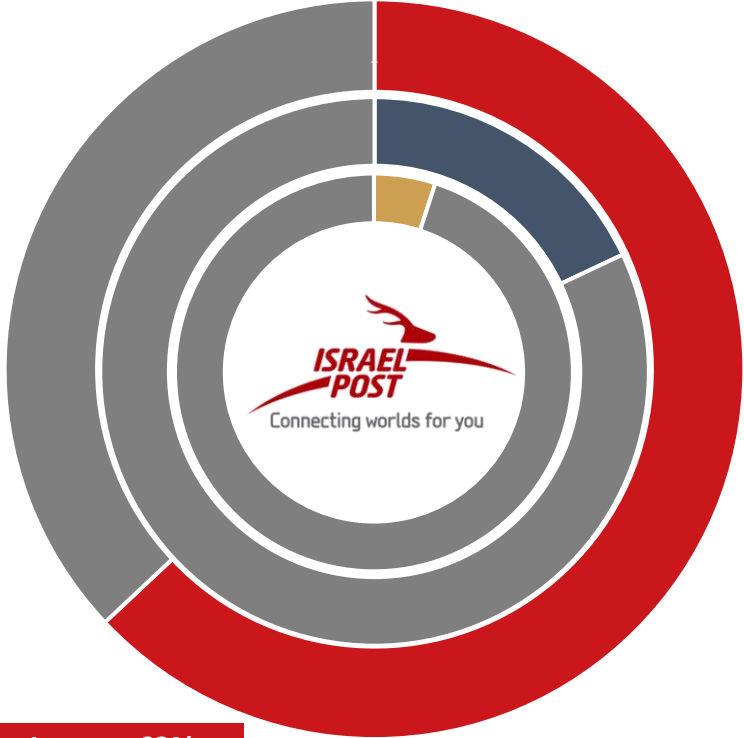
Provision of complementary services



Marketing efforts



Expanding the portfolio of services (storage, premium solutions, etc.)



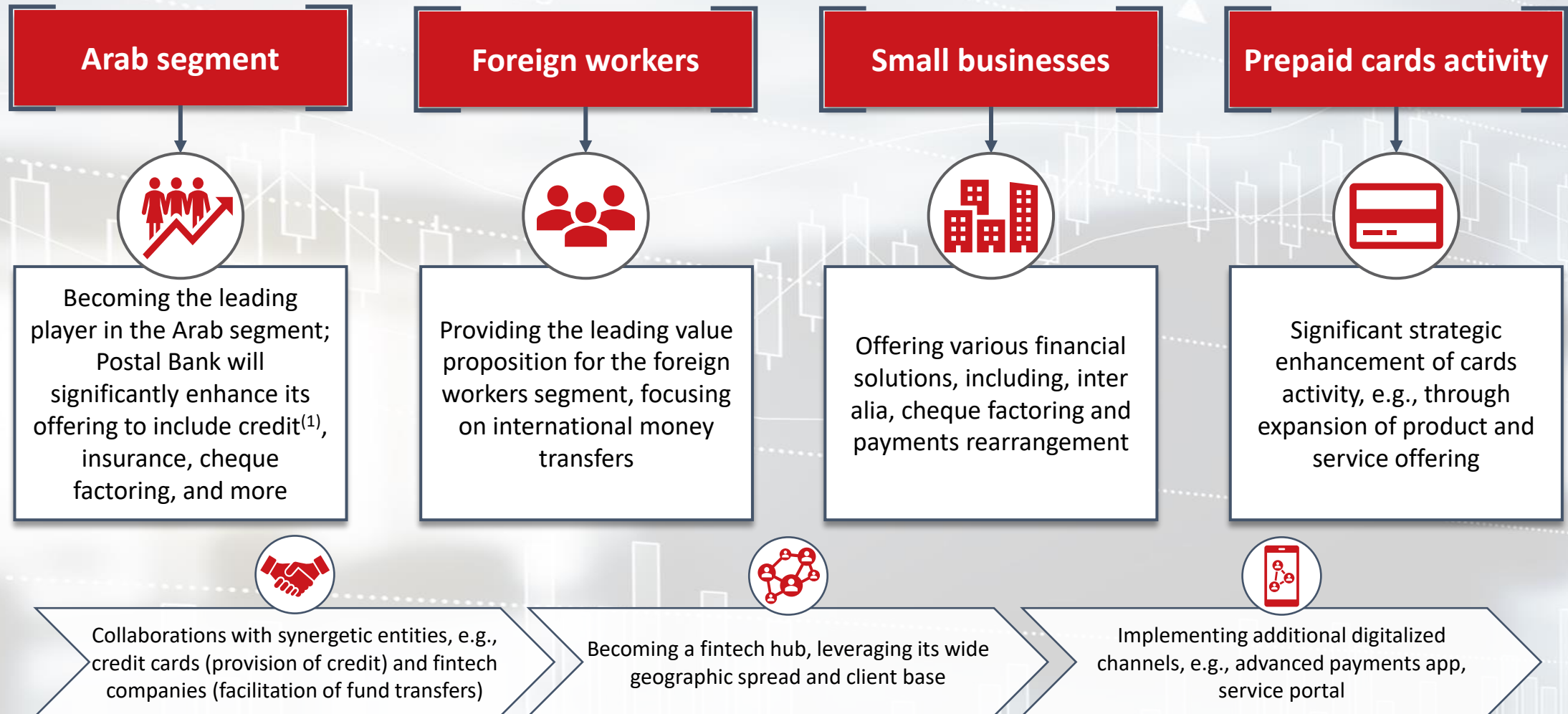
Import: 63%
Domestic: 18%
Export: 5%
 Outside business focus

Note:
 1. Management estimates, based on the Company's current strategic plan and its underlying assumptions



Future Postal Bank growth

By capitalizing on its assets, the Postal Bank will position itself as a key niche financial institution by delivering attractive value propositions to its target customer segments



Source:
Israel Post, Strategy & analysis

Note:
1. Provision of credit to be offered through partnerships

Sustainable business model for Traditional Mail

Utilization of operational improvements and regulatory tailwinds in order to drive improved financial performance



Supply chain optimization

- Retirement of 1,050 FTEs, o/w 400 are attributed to Traditional Mail
- Over time, decreased workforce requirements due to utilization of automation
- Optimization of the distribution workforce



Pricing flexibility

- Removal of price supervision from most services
- Price hikes and subsequent tariff increases as required
- Implementation of differential pricing



Adjusted service requirements

- Decreased branch coverage and branch operating hours, aligned with diminishing demand
- Reduced distribution frequency
- Elimination of certain unprofitable services



Customer centric approach, driven by strategic plan

The strategic plan places great emphasis on ILP's customers, driving numerous benefits



1 Improved service level driven by sorting automation and distribution optimization

- Shorter delivery times and increased delivery success rate
- Mainly set to benefit import and domestic CEP customers

2 Customer value creation

- Expansion of recurring service offering with a focus on increasing customer LTV
- Focus on up-selling and cross-selling of products and services
- ILP's designated Service division to continuously monitor service levels, ensuring customer satisfaction

3 Provision of key services via self-service kiosks

- Saves time for customers who don't want to wait in line and does not require communication with company representatives
- Enables the provision of services outside working hours
- Decreases branch congestion, improving customer experience for other, branch-going customers

4 Diversification of Postal Bank services

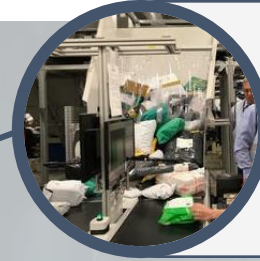
- Provision of point-of-sale **insurance services** complementary to the Postal Bank's operations, via collaborations (e.g., provision of car insurance upon transfer of car ownership, provision of travel insurance upon forex conversion)
- Provision of **credit services** via collaborations, including factoring for SMB's, consumer loans for target segments, etc.

5 Upgraded IT infrastructure

- Expected to drive improved data security and faster service
- Implementation of CRM expected to improve customer management
- Implementation of advanced BI solutions to maximize data utilization

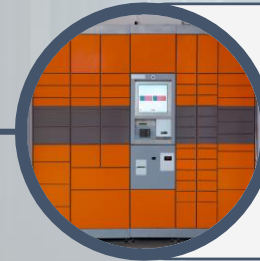
Optimizing costs while improving performance

Taking initiatives to propel Israel Post forward, bridging the gap with postal companies worldwide



Automated sorting

- Investment in automation to reduce time and cost to process parcels and mail
- Reach higher accuracy in sorting process, resulting in higher SLA and customer satisfaction



Self service kiosk and parcels pickup

Implementation of automated tools to provide quality service with fewer employees



Improvements in deliveries

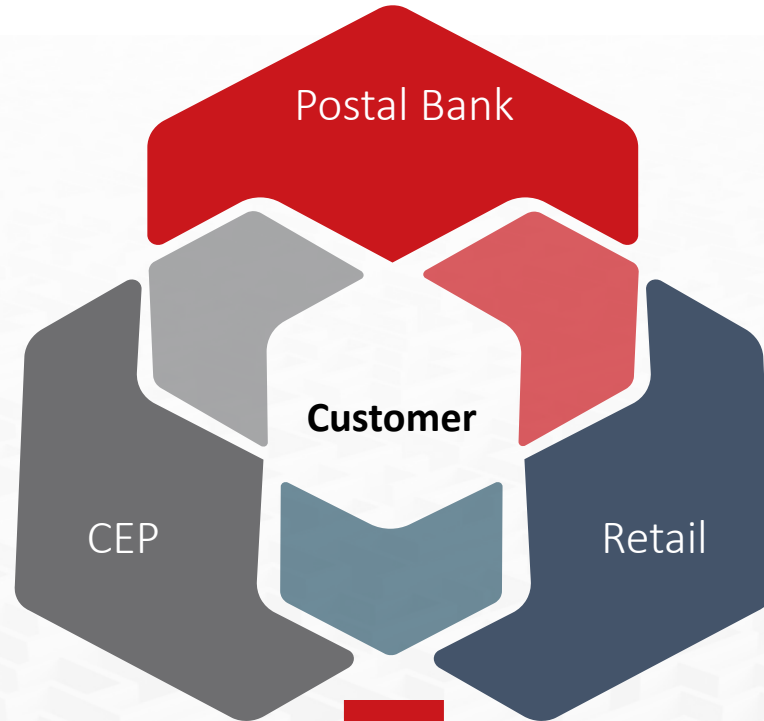
- Combining mailman and parcels delivery couriers to improve service levels and optimize cost
- Optimization of delivery routes and logistic spaces

Potential collaborations

Building on ILP's extensive customer base and on current relationships with leading global retailers, to drive beneficial partnerships



Collaborating with a range of partners to introduce cash-back programs via branded prepaid Postal Bank cards. When customers make a purchase, they will be rewarded with cash-back, special offers, financing opportunities, etc.



Harnessing ILP's digital presence (80m website visits p.a. and 1.4m app users) to engage in collaboration regarding the marketing of retailer products in ILP's website and app



Utilizing existing customer data (2.6m registered customers), to embark on marketing campaigns catered for ILP's customers (including through instant messaging), in collaboration with retailers



Implementing a shop-in-shop model by collaborating with strategic partners, providing physical space, e.g., for major retailers like AliExpress, leveraging ILP's multiple touch-points with its customers



Key strategies pertaining to assets and postal units

The postal assets can leverage additional value, leading to a substantial boost in profitability



Reduction of postal units

Enhancing efficiency and customer service by implementing automatic self-service machines, while still maintaining market leadership in terms of retail presence



Shop-In-Shop

Optimizing revenue by leasing 110⁽¹⁾ postal branches in high-demand locations and establishing staffed service points on-site



Property optimization

By engaging in Joint Ventures, implementing Tama (National Outline Plan), or obtaining building rights, additional real estate value can be unlocked

Looking forward...

Due to significant investment, and the fruition of business initiatives, ILP will bolster its position as a growing and profitable service provider

Automation and Digitalization



Capital expenditure of over NIS 500m from 2023 to 2026

High service standards



Meeting competition and international standards in delivery times, customer satisfaction, etc.

Robust financial profile



>5% average yearly revenue growth
>15% EBITDA margin⁽¹⁾



Thank you!

For any inquiries or questions regarding the process, please contact:

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