

Bezeq Group

Business Strategy

November 30th, 2021

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From defense to growth

In Summary

01

Fiber as growth engine

Bezeq is leading the fiber revolution in Israel. Within the next few years, most Israeli homes will have access to fiber

02

yes as a 'triple-play' growth engine to accelerate fiber growth

The merger of Bezeq international's consumer division with yes' TV business is expected to enable marketing of a TV and Internet bundle whilst migrating yes into Full IP

03

5G as revenue growth driver

Pelephone is leading the 5G revolution in Israel and within the next few years most of its subscriber base is expected to move to 5G, while increasing data usage and contributing to ARPU growth

04

Establishment of a leading ICT company

Bezeq International's ICT division will become an independent company focused on the growing areas of the ICT market: migration to the public cloud and cyber security services

05

Business portfolio diversification to create additional growth sources

The group will identify opportunities for entry into new adjacent areas which are relevant to its core capabilities

06

Maintain balanced capital structure and return to dividend distribution

The group strives to return to dividend distribution while maintaining an optimal leverage and credit rating within the AA group



Creation of significant growth engines while continuing streamlining process

The Group is in the midst of technological transition in all key sectors which will serve as basis for future growth



Fixed Internet



Advanced fiber optic network deployment



Revenue and ARPU growth



Cellular



Move to 5G



Revenue and ARPU growth



Television



Migration from satellite to IPTV



Significant decrease in expenses and reduced churn

The group's mid-term ambitions

- Expansion of fiber subscriber base – reaching approx. 2M homes passed as a strong growth foundation
- Continued leadership and growth in the business segment through broad and diverse value proposition
- A 'triple-play' offering by yes and full migration to IPTV will support subscriber base growth and reduction of Opex and Capex
- Deployment of 5G is expected to contribute to Pelephone's subscriber base growth and ARPU
- Establishment of ICT company and acquisitions in growth areas - public cloud and cyber
- Integration and promotion of ESG-relevant initiatives as an integral part of business strategy



- Adjusted EBITDA growth
- FCF growth as compared to 2021
- Maintaining high liquidity and credit rating in the AA group to allow resilience in times of uncertainty

The Telecom Market

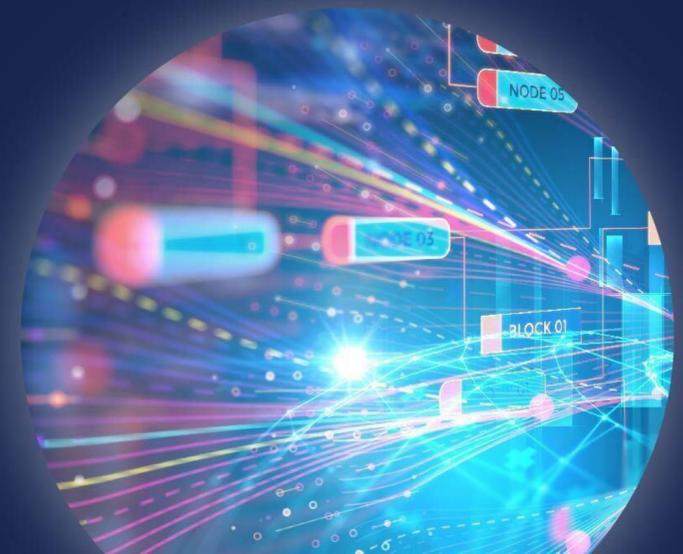
Major Trends

The telecom market is undergoing significant changes as a result of technological developments, changes in consumer behavior and evolving regulation





All of these lead to a growing demand for advanced communications infrastructure



Demand for communications and data services is growing

Telecom companies are enablers for growth in data usage therefore are significant in the technological and business environment

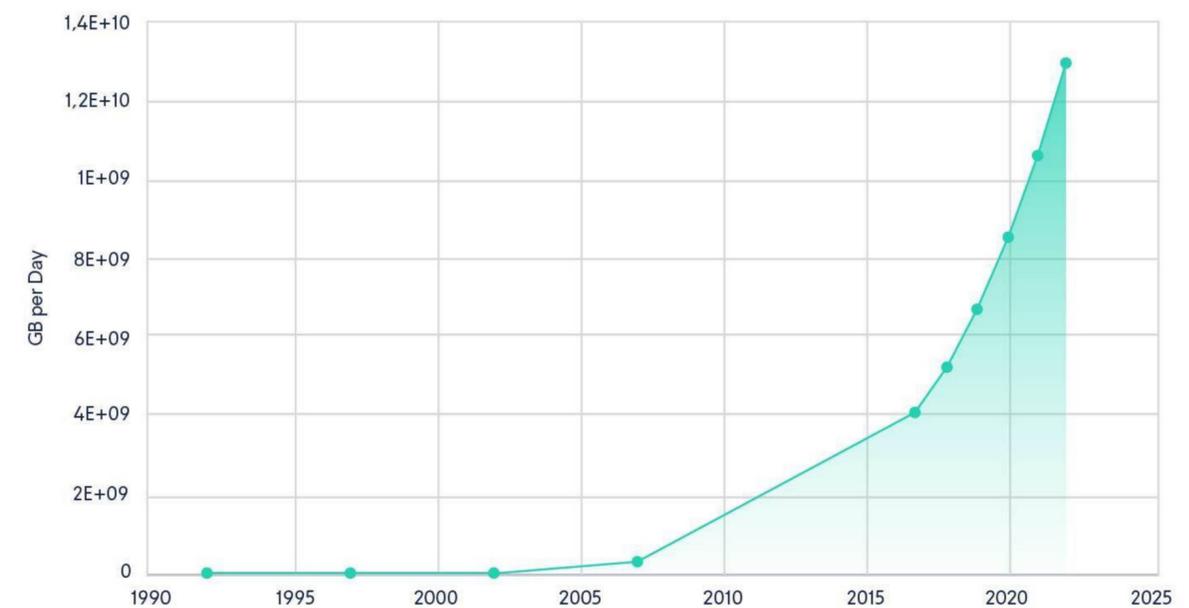


Mobile Internet Traffic



Global mobile data traffic forecast by ITU. Overall mobile data traffic is estimated to grow at annual rate of around 55% in 2020–2030 to reach 607 exabytes (EB) in 2025 and 5, 016 EB in 2030. (Source: Cisco)

Fixed Internet Traffic



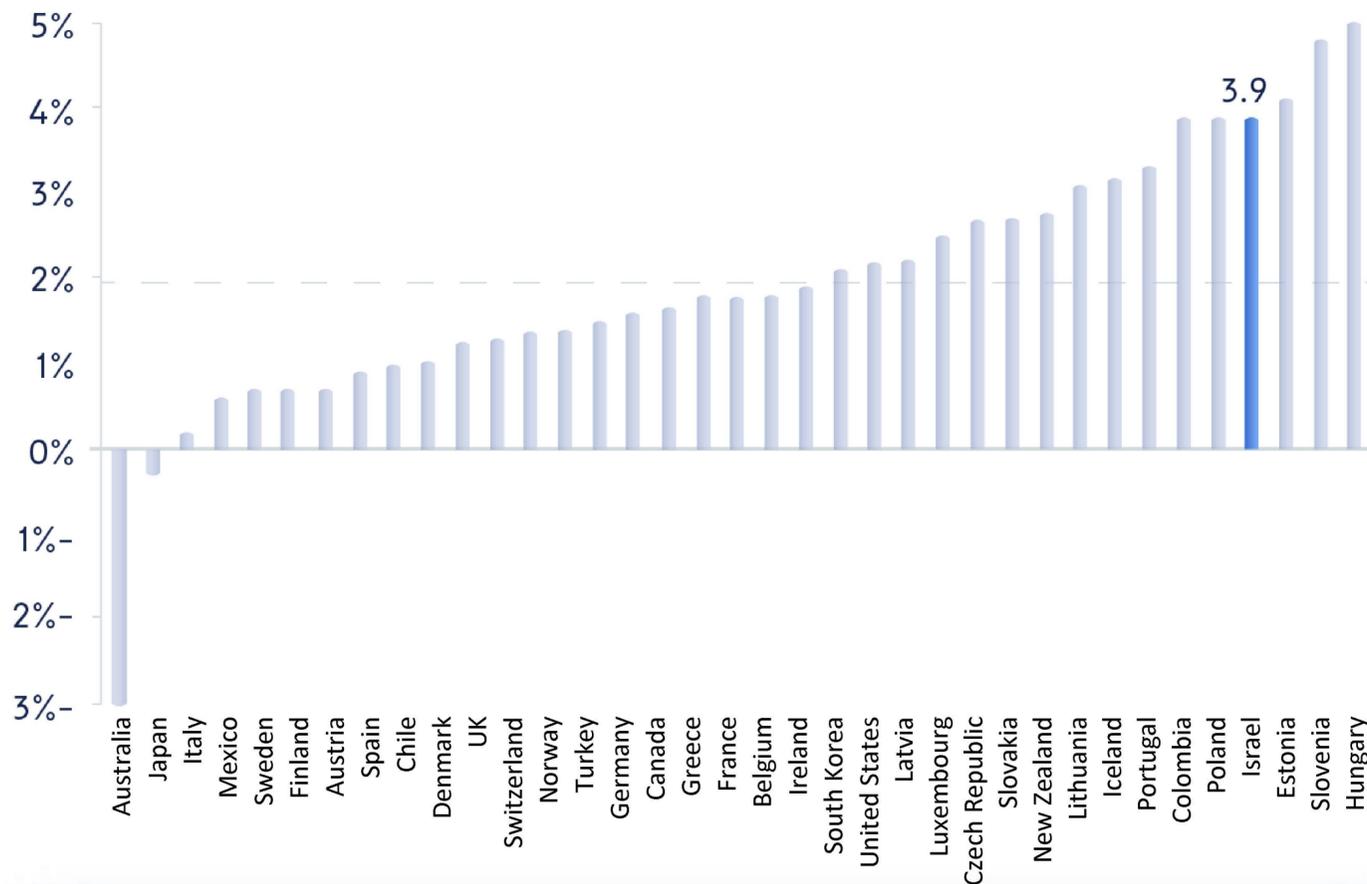
2: Increase in Global Internet Traffic in GB per Day from 1997 to 2022 (data from [Cisco, 2018])

Source: www.ericsson.com/en/mobility-report/dataforecasts/mobile-traffic-forecast

Introduction to the Israeli Economy

The rapid population growth in Israel supports higher sustainable growth relative to developed countries

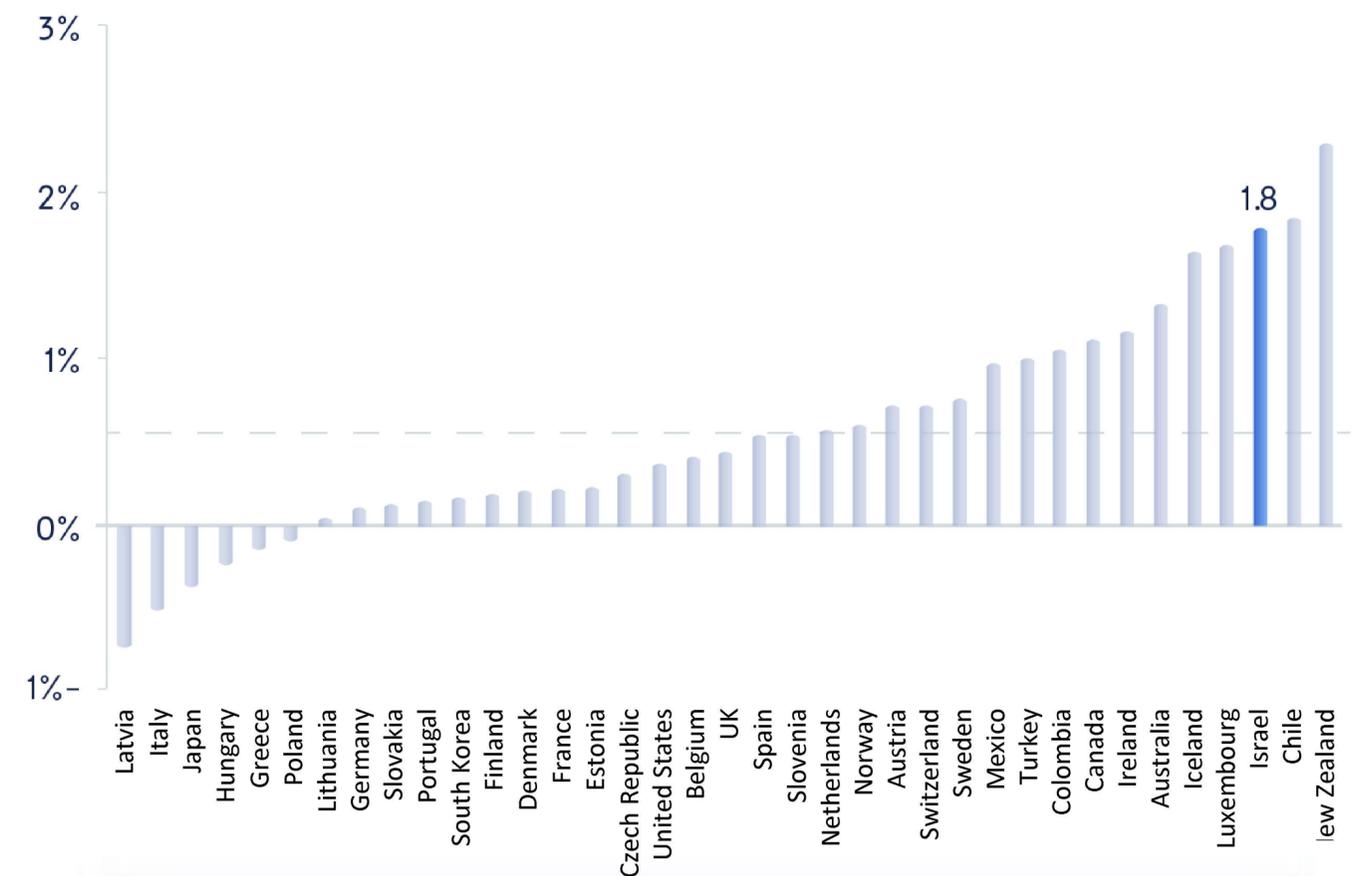
Increase in household expenditure:
(Annual growth rate, 2019)



Private consumption in Israel is growing more rapidly than the OECD average

Source: OECD

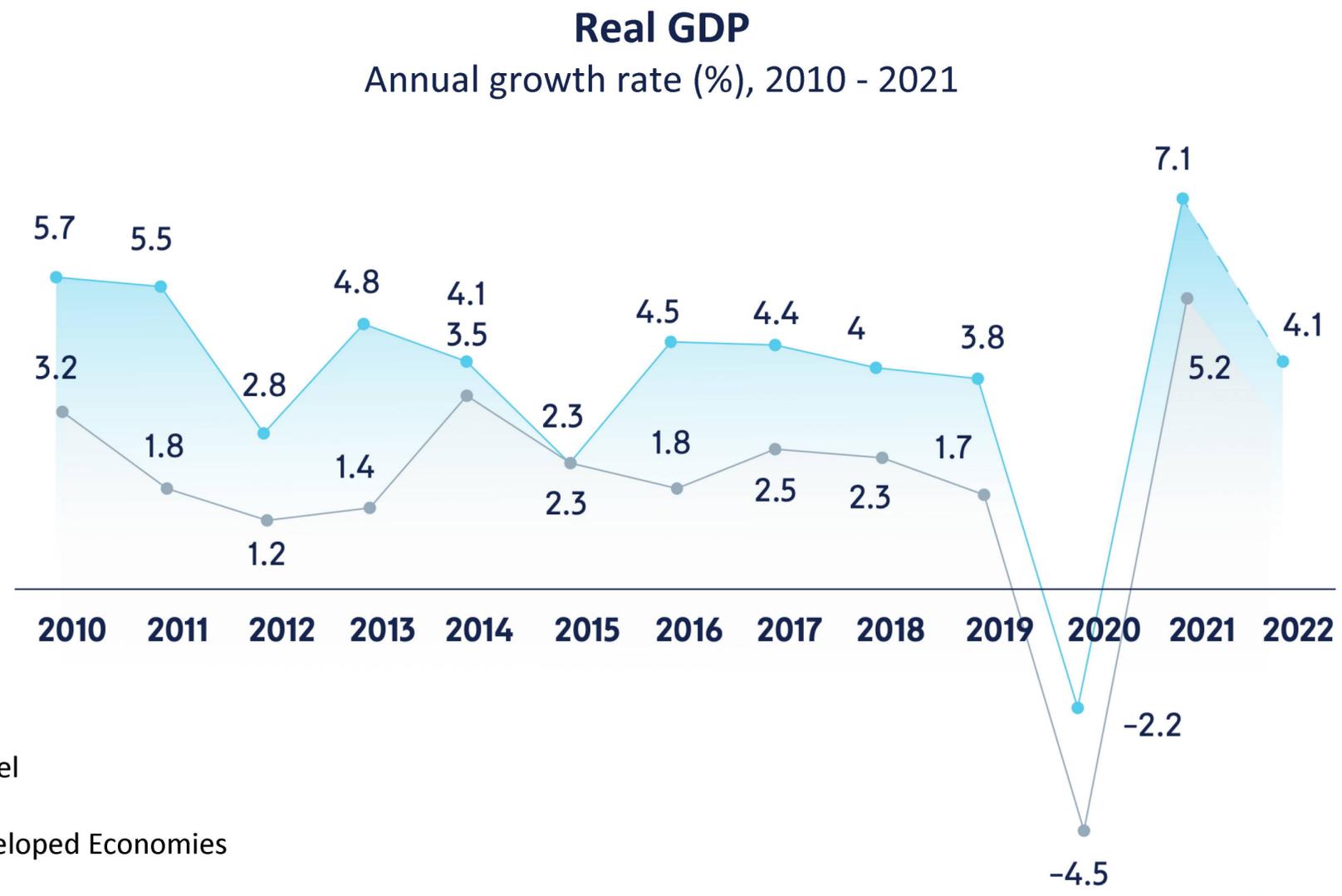
Population Growth Rate
(Annual growth rate, 2020)



Israel's population has grown at a rate of more than three times the OECD according to CBS forecasts. Growth is expected to continue at an average annual rate of 1.8% through 2035



The Israeli economy exhibits strong macroeconomic performance and fiscal resilience



Israel's economy continues to grow faster than most of the world's developed economies



Bezeq Group 2021



Group vision

Bezeq Group - the largest and leading communications group in Israel, will lead and promote **the digital revolution in Israel, through advanced infrastructure and services for consumers and businesses, while striving for operational excellence and continuous improvement in business results**

Group structure



Current situation



Group structure



*The Company's Board of Directors decided to spin-off the ICT operations from Bezeq International into a new company wholly-owned by Bezeq and to merge Bezeq International's consumer activities into yes



Bezeq Group Senior Management



Gil Sharon

Chairman of the Board of Directors

Date of Appointment: 8.2020

Mr. Sharon has over 28 years' experience in diverse senior positions in the telecommunications industry, among others, as Pelephone's CEO for 10 years, and until recently as Chairman and CEO of Golan Telecom.

Mr. Sharon holds a master's degree in business administration from Tel Aviv University, and a bachelor's degree in economics and business administration from the Hebrew University of Jerusalem.



Dudu Mizrahi

CEO of Bezeq

Date of Appointment: 9.2018

From 2017-2018 Mr. Mizrahi served as Deputy CEO and CFO of Tnuva.

Prior to that, he served as CFO of Partner Communications.

From 2012-2016, Mr. Mizrahi served as Deputy CEO and CFO of the Bezeq Group.

Prior to that, he acted as VP Economics of Bezeq, and in total worked for approx. 20 years at Bezeq.



Ran Guron

CEO of yes, Pelephone and Bezeq International

Date of Appointment: 1.2019

Ran Guron has over 20 years of experience in the communications market, of which more than a decade in the Bezeq Group. Since 2015, he has served as CEO of Pelephone and since 2018, he has also served as CEO of yes and as CEO of Bezeq International.

In previous years, he was Deputy CEO and VP of Marketing at Bezeq, and also served as VP of Marketing at various communications companies.

Guron holds a BA degree in economics and business administration, and an MBA degree, both from the Hebrew University.



Tobi Fischbein

CFO of Bezeq Group

Date of Appointment: 4.2021

During the years 2017-2021, Mr. Fischbein served as CFO at MAX (formerly Leumi Card) and from 2011-2016 as CFO at Tadiran Group Ltd.

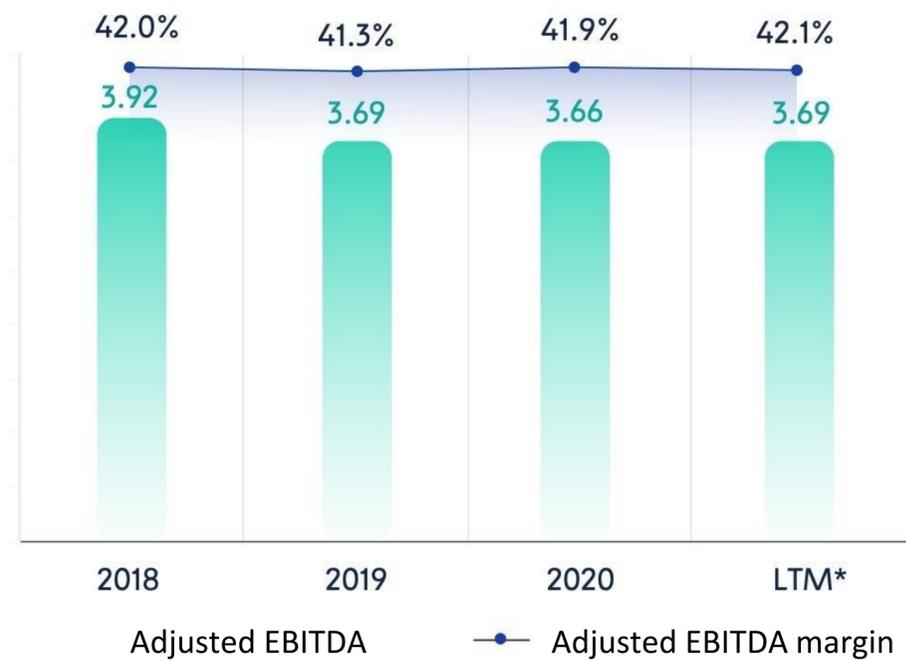
Mr. Fischbein returned to Bezeq after serving as Head of the Finance & Capital Markets Dept from 2007-2011.

Mr. Fischbein holds a master's degree in Public Administration in International Development (MPA/ID) from Harvard University as well as MA and BA degrees in Economics from Tel Aviv University.

Bezeq Group
Select Financial Data

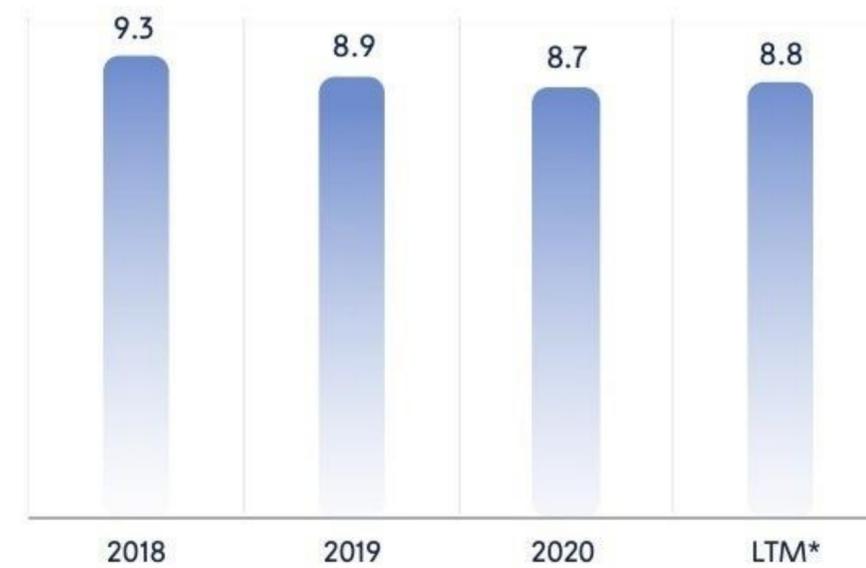
Group Revenue and EBITDA

Adjusted EBITDA¹ (In NIS Billions)



Stable EBITDA over the last few years

Revenue (In NIS Billions)



A moderate decline in revenue over the past few years, indications of an increase in 2021

(1) After adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation

* LTM - Last twelve months published, as of Sept. 30th 2021



Development of key performance indicators in the main areas of activity

Subscribers (in thousands)



Decrease in wholesale internet subscribers

Stability in TV subscribers

An increase in cellular and retail Internet subscribers in the last two years

ARPU (NIS)



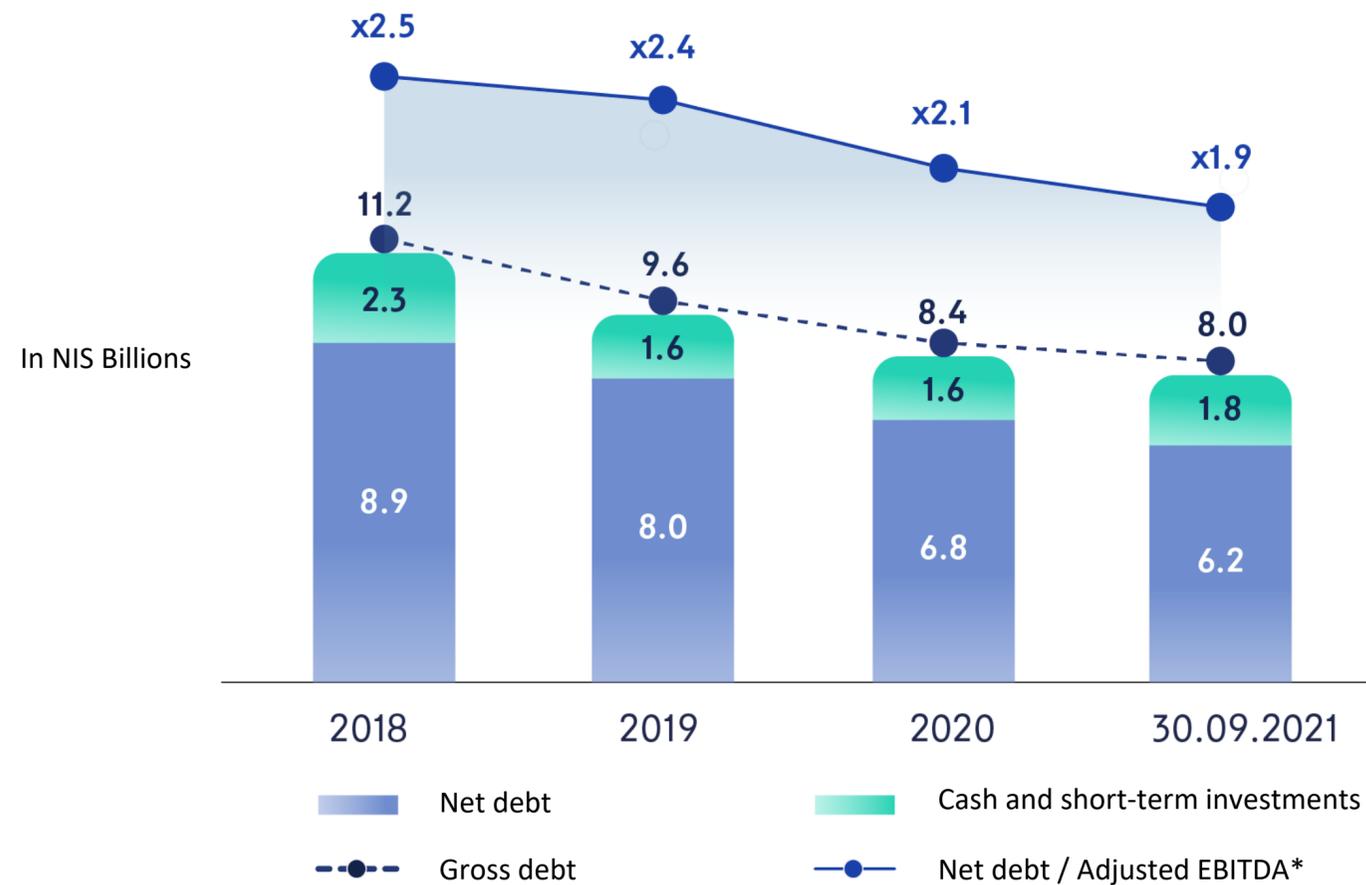
Flattening of the decline in TV and mobile ARPU

Continued increase in retail Internet infrastructure ARPU

- Television
- Wholesale Internet infrastructure
- Retail Internet Infrastructure
- Telephone lines
- Cellular

The Group's financial debt over time

A decrease of approx. 30% in gross and net debt



Credit Rating

S&P Global Ma'alot

iAA-

Outlook: Stable

Midroog

Aa3.il

Outlook: Stable

**Conservative
liquidity policy**

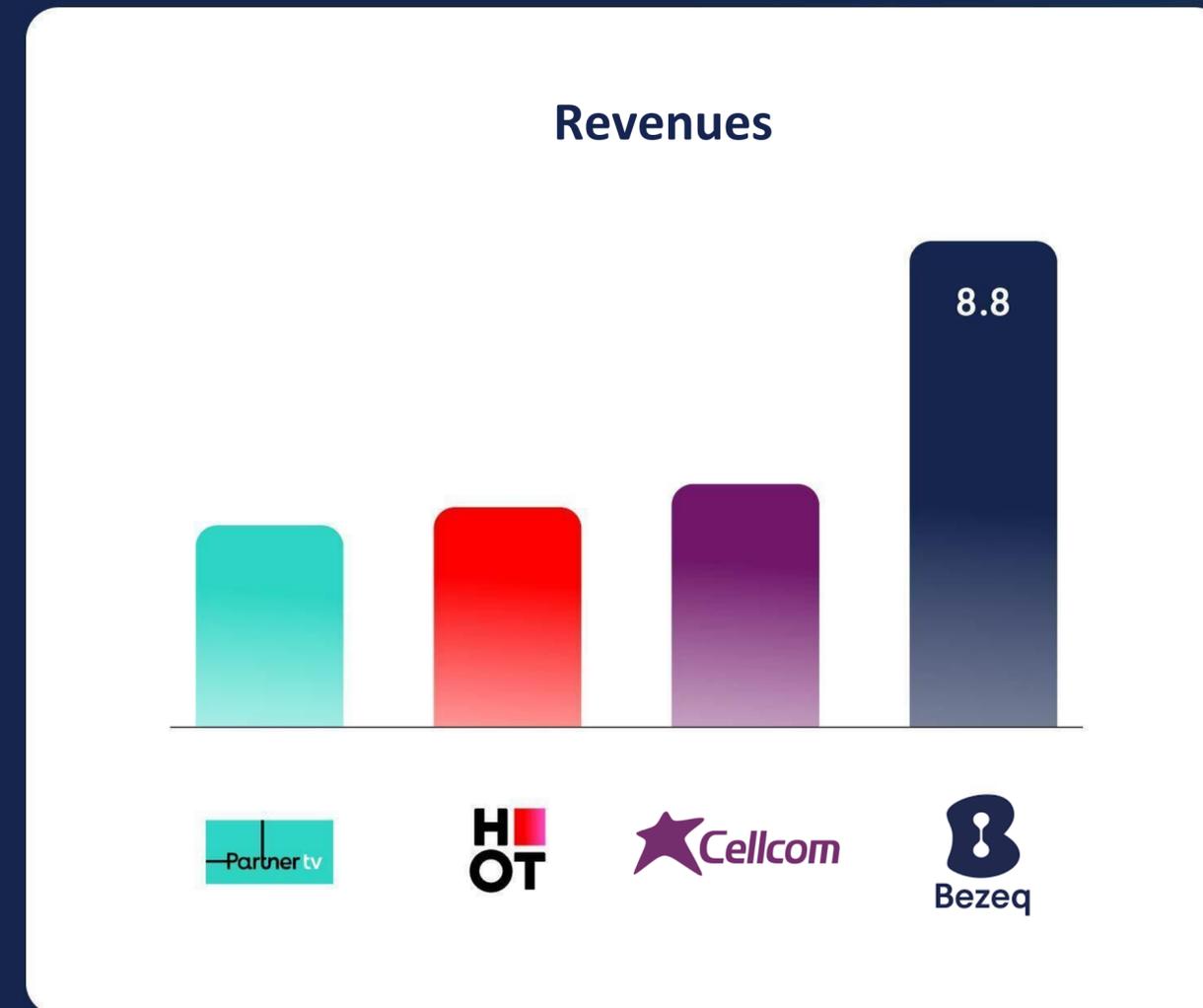
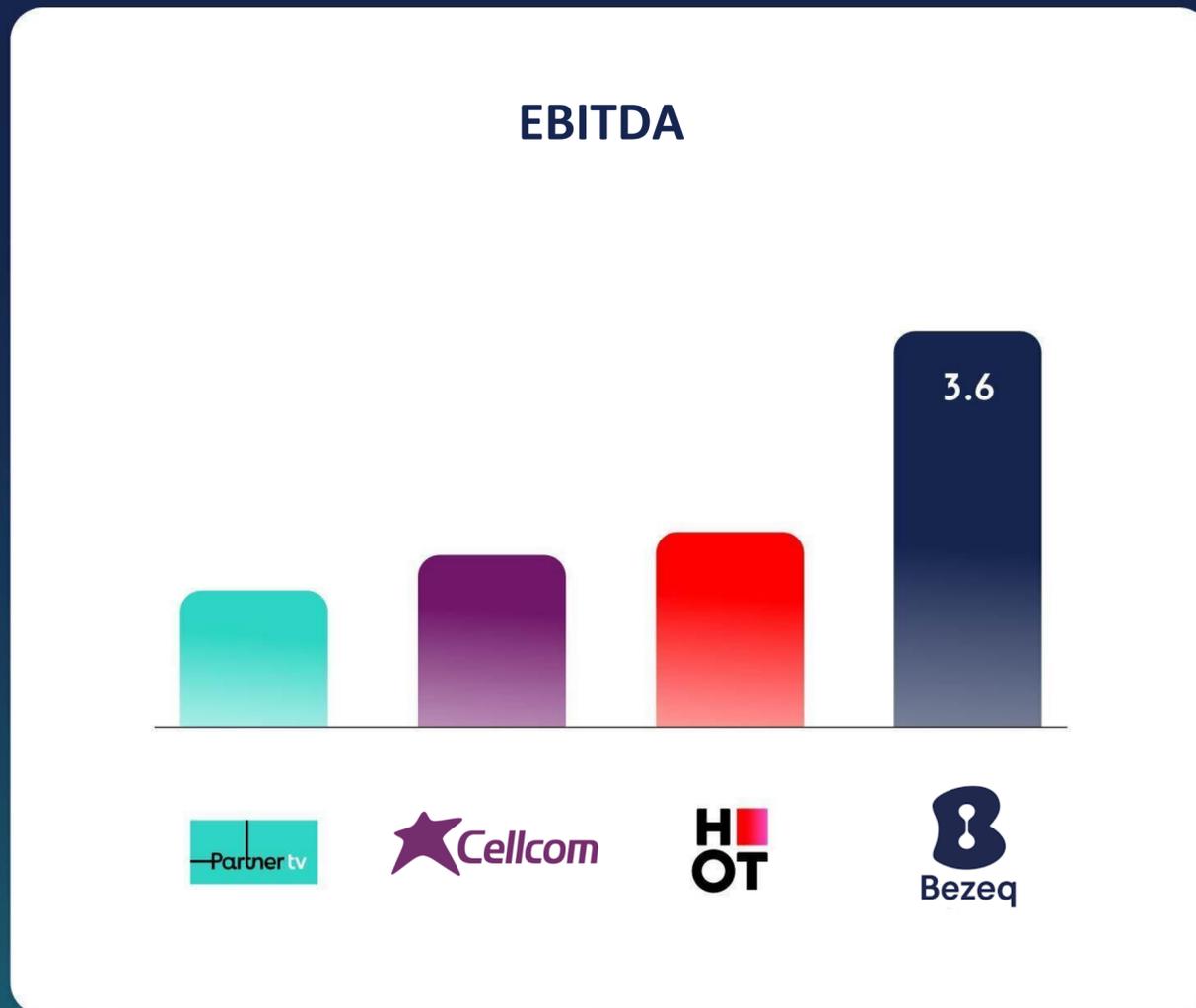
**Strong financial profile,
reflected in high and
stable credit ratings**



* EBITDA less lease payments and after adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation

Bezeq is the largest communications group in Israel and has a significant presence in all segments of the market

(NIS billions, LTM*)



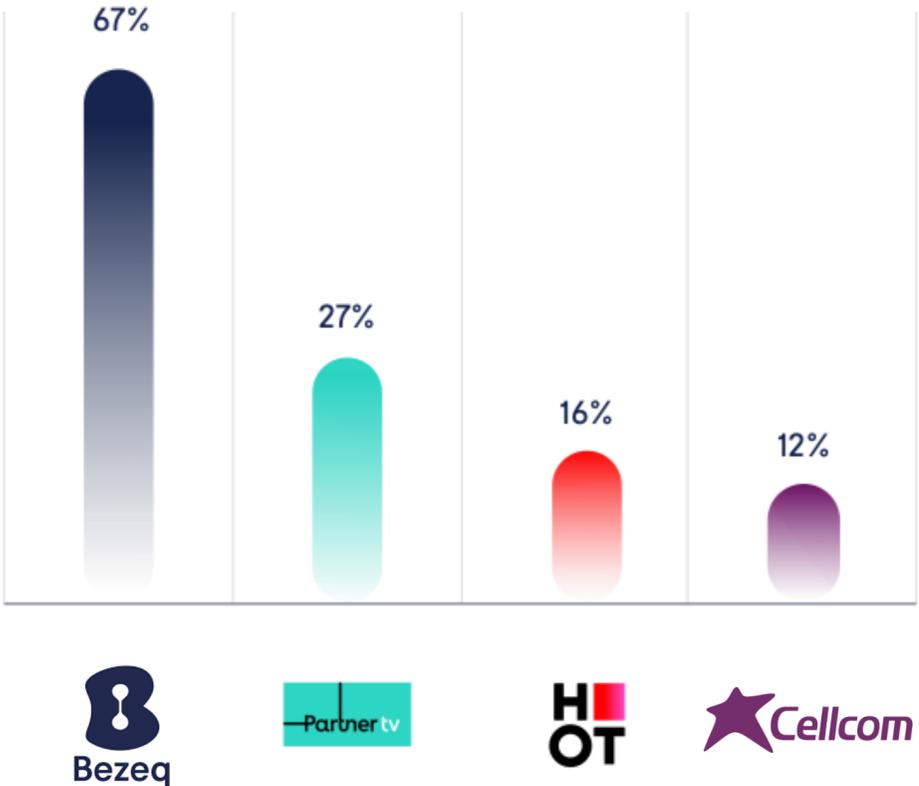
* LTM – Last 12 months ending June 30th 2021. Data according to company reports and publications. HOT data based on Altice financial reports, conversion from EUR to NIS based on average exchange rate of 3.96.

And is perceived as such in the eyes of consumers

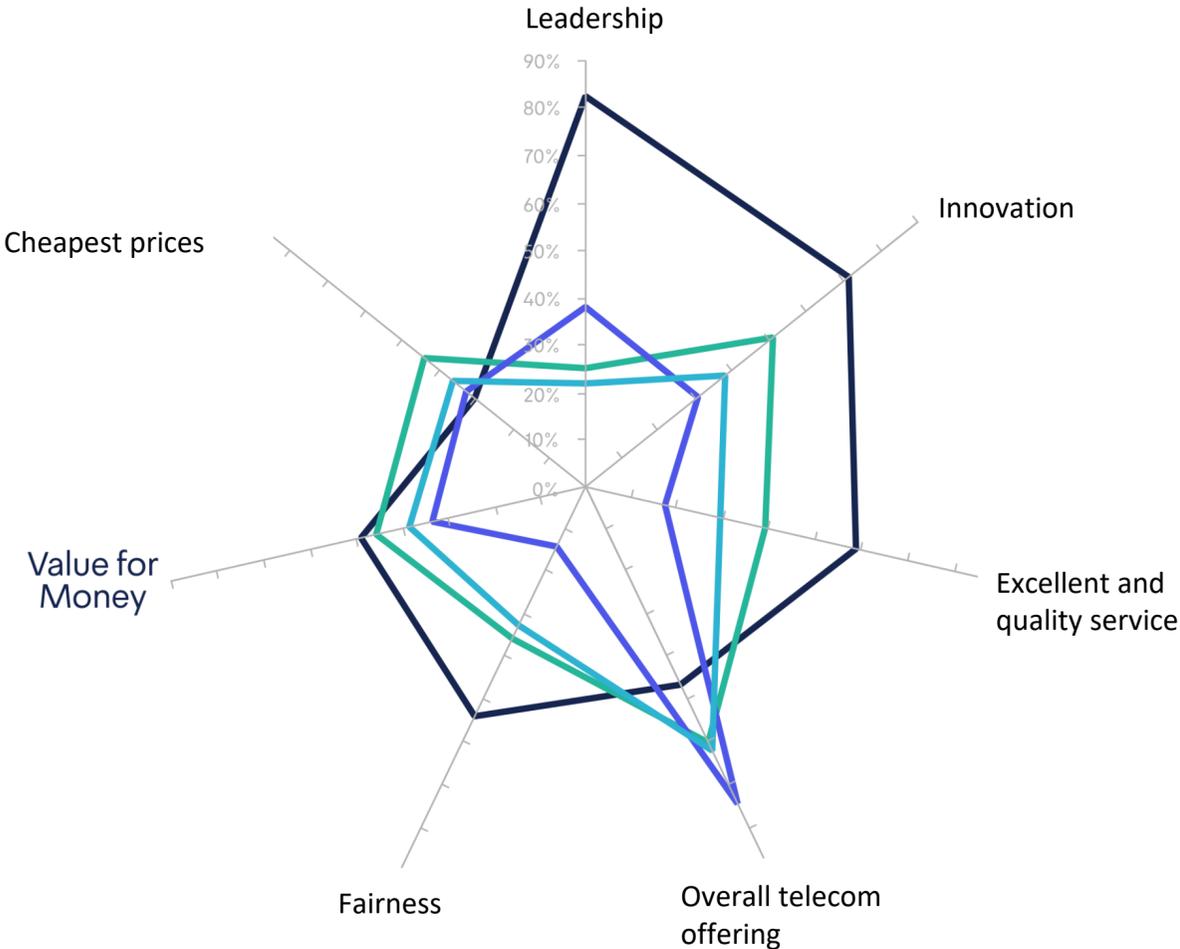
Image perception of media companies

"Which of the following companies is it appropriate to say: provides a strong and powerful Internet"

General public

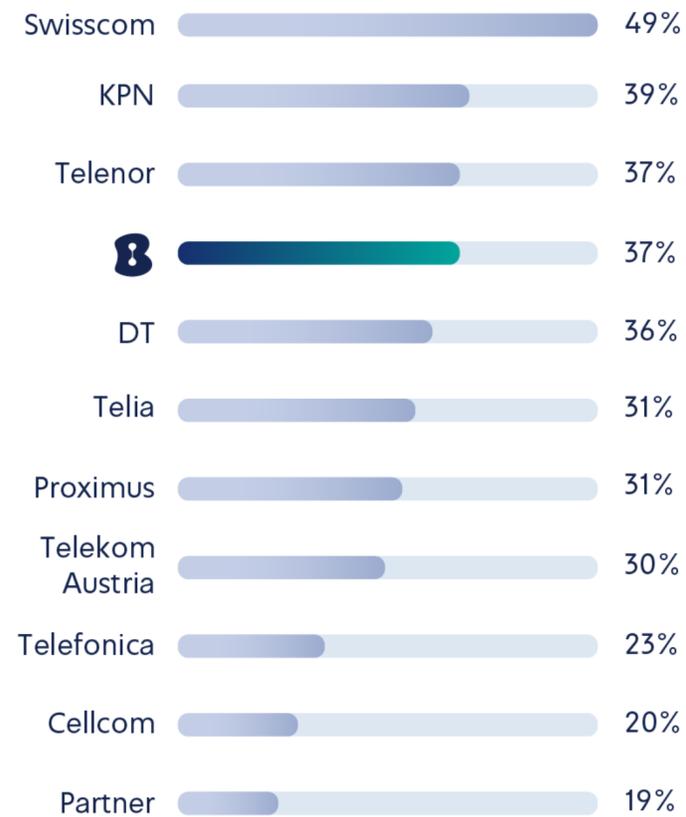


"Which company do you think is a leader in the field ..."

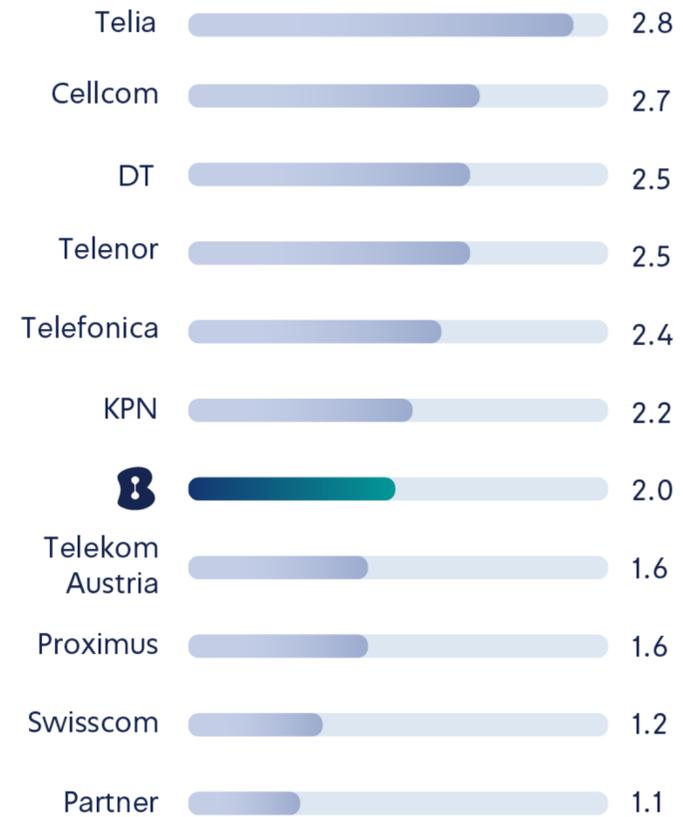


The Bezeq Group also shows strong financial performance when benchmarked against international peers

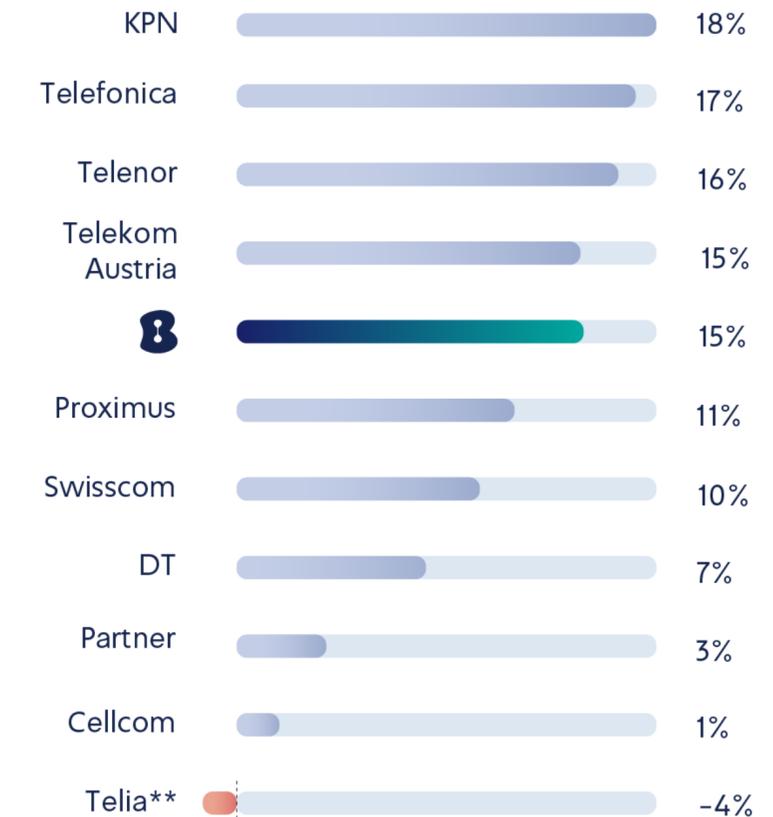
Adjusted EBITDA* Margin



Net Debt to Adjusted EBITDA*



ROCE - Return on Capital Employed



** Net loss in 2020 as a result of accounting impairment



* Bezeq's adjusted EBITDA is calculated as EBITDA less lease payments and after adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation
Source: Company reports with certain adjustments by Bezeq in order to present uniform data for the last 12 months ended June 30th 2021

Bezeq Group Business Strategy

Strategic Pillars

1

Accelerated deployment of **fiber optics** and transition to unified Internet – as a **growth engine** for Bezeq Fixed Line

2

Bezeq International's consumer division **merged with yes**, which will offer **'triple-play' bundles** combining Internet and TV

3

Pelephone will leverage the transition to 5G to increase revenue and ARPU

4

Bezeq International's ICT Division will become a new growth-oriented ICT company



Focus on development of infrastructure and growth engines

Bezeq's growth strategy focuses on a number of key arenas

Transition from defense to growth

Arena	Communication, data and content services for households	Business telecom services	Cellular services	ICT services for businesses
Strategic direction	Investing and focusing efforts on growth and strengthening competitive position by offering a wide a range of services and increasing household penetration	Maintaining and strengthening the leading position in the arena through value-added offering to customers, based on quality service and advanced products	Maintaining and strengthening the competitive position, while striving to increase revenues and improve profits	Invest in building capabilities that will enable significant growth
Growth engine	Fiber optics as the arena's main growth driver	Reliable broadband transmission and a wide portfolio of advanced services	5G as base for revenue and ARPU growth	Organic growth alongside focused acquisitions to strengthen and complement capabilities

The foundation: Strive for operational excellence, while promoting digital transformation and continued cost-base streamlining





Communication, data and content services for households

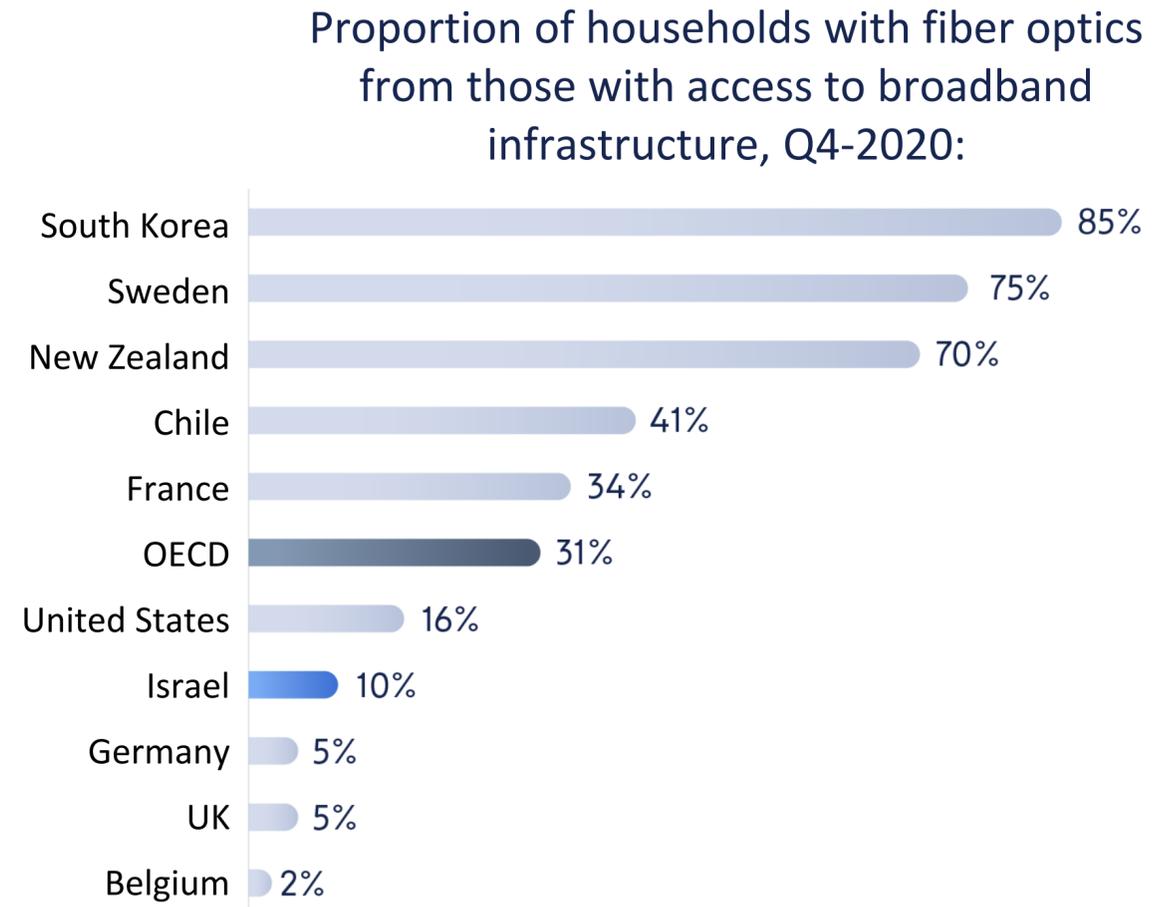
Investing and focusing efforts on growth and strengthening competitive position by offering a wide range of services and increasing household penetration

Communications, data and content services for households - main strategy

Investing and focusing efforts on growth and strengthening competitive position by offering a wide range of services as possible and increasing household penetration

- Adoption of **customer-centric (household) focus**, as opposed to product-based
- **Increasing total income from household** and making the Bezeq Group "the gateway" to the home through a wide range of services, strengthening customer loyalty and reducing churn
- **Fiber optics and yes' content** will be key tools for recruiting/retaining customers, expanding the portfolio of services and increasing revenue
- **The merger of Bezeq International and yes** is expected to generate an effective marketing and sales arm to promote Group services focused on fiber and TV bundle
- The Group will operate in the arena both via Bezeq Fixed-line and via yes in order to **enhance penetration and growth** while maximizing capabilities, until the removal of structural separation

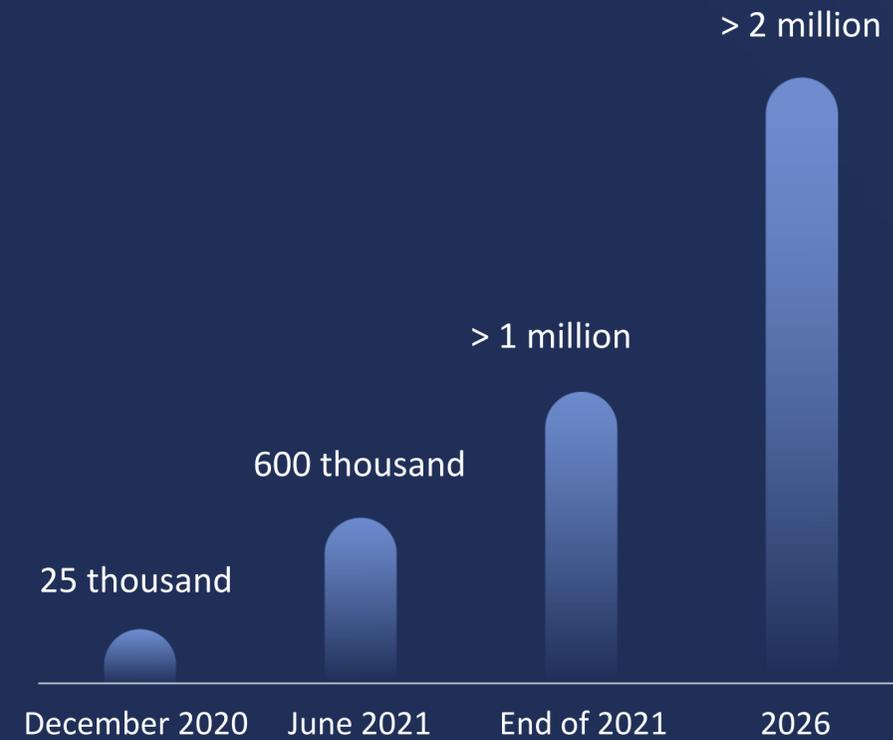
Until recently, Israel was significantly behind other OECD countries in deployment of fiber optics



In the past year, Bezeq accelerated its fiber deployment and will end 2021 with over one million homes passed and a high level of awareness of the service

In the past year the 'roadblock' has been lifted and accelerated deployment is underway

Households with access to Bezeq's fiber infrastructure



Bezeq Group benefits from yes' leading and highest quality content in the Israeli TV market

STINGTV

Leading product for the basic segment

yes+

Premium product - the highest quality and widest IPTV in Israel



שירותי טלוויזיה מתקדמים

- CatchUp - כל התכניות שבוע אחורה
- StartOver - התחילו תוכניות מההתחלה
- Binge - ניגון אוטומטי של הפרק הבא
- הקלטה בענן - להקליט ולצפות מכל מכשיר

להצטרפות <

yes+ LIVE עולם הילדים הפיצרים של yes+ מסלול yes+

חדש! myTV

yes+

הטלוויזיה הכי טובה של של yes כשמדובר בטלוויזיה לא מתפשרים!

להצטרפות

שירות הסטרימינג הגדול בישראל



In parallel – the merger of Bezeq International and yes will create a unified company focused on household's communications needs



- Following the Competition Authority's approval, for the first time, yes will be able to market a "triple-play" bundle combining Bezeq's Internet infrastructure with yes' high quality content
- The combination with Internet services is expected to enhance yes' migration to full-IP TV services – in turn allowing for significant savings in satellite and set-top box costs
- yes' strong value proposition is bearing fruit as reflected in lower churn rates and improved cash flows

A photograph of three business professionals in a modern office setting. They are seated around a long, light-colored table. One man on the left is looking towards the center. Another man in the middle is looking at a laptop. A woman on the right is looking at some papers. The office has large windows in the background, providing a view of a city skyline. The image is overlaid with a dark blue gradient on the right side.

Business telecom services

Maintaining and strengthening the leading position in the arena through value-added offering to customers, based on quality service and advanced products

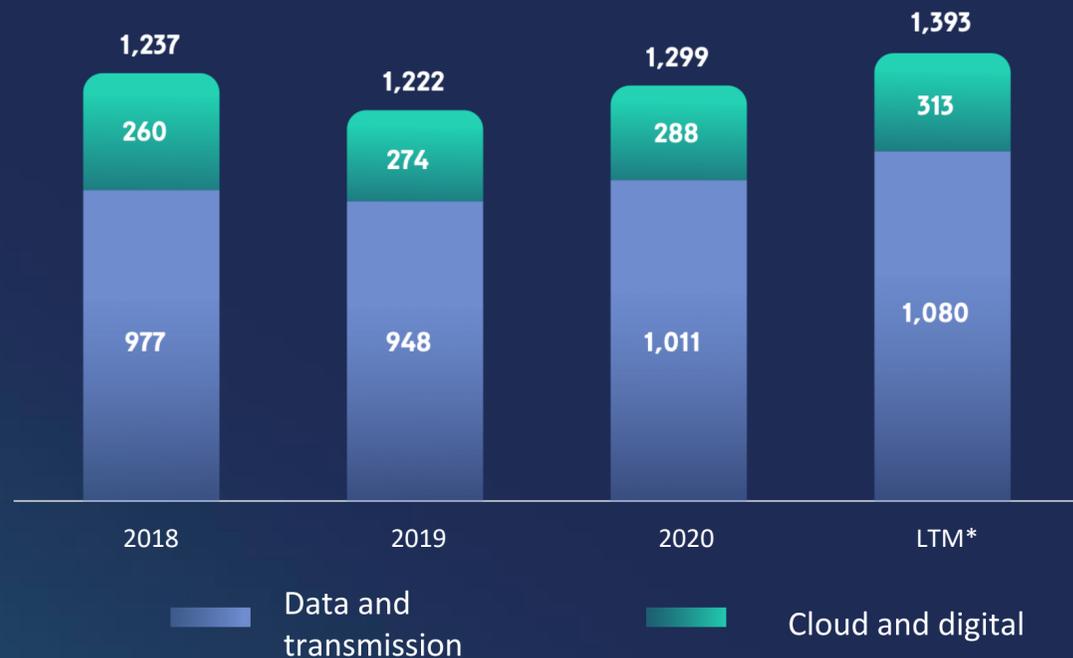
Business telecom services – main strategy

Maintaining and strengthening the leading position in the arena through value-added offering to customers, based on quality service and advanced products

- The business focus - increasing the total income from the business through a wide range of services
- Maintaining high-quality services
- Continue to strengthen relationship with corporate customers
- Focusing on growth in SMB segment (50-500 employees), by expanding the product portfolio
- Take advantage of businesses transition to the public cloud as growth engine for Bezeq services
- Emphasis on services and technical support quality
- Collaboration with new ICT company as allowed by structural separation constraints in order to maximize capabilities

Bezeq is a leader in the business sector and continues to grow through advanced and high-quality business services

Bezeq revenues from data services for businesses (NIS m)



- Wide range of services based on Bezeq's quality infrastructure
- Bezeq to strengthen its leading position in the business sector based on the most advanced and high-quality communication network, in addition to value-added services such as cloud, digital, equipment and more.
- As of 2020, Bezeq's market share is approx. 80% of transmission and data communications services **

* LTM - last 12 months published, as of Sept. 30th 2021

** Source: Telecom market revenue summary report for 2020, Ministry of Communications



Cellular services

Maintaining and strengthening the competitive position, while striving to increase revenues and improve profits



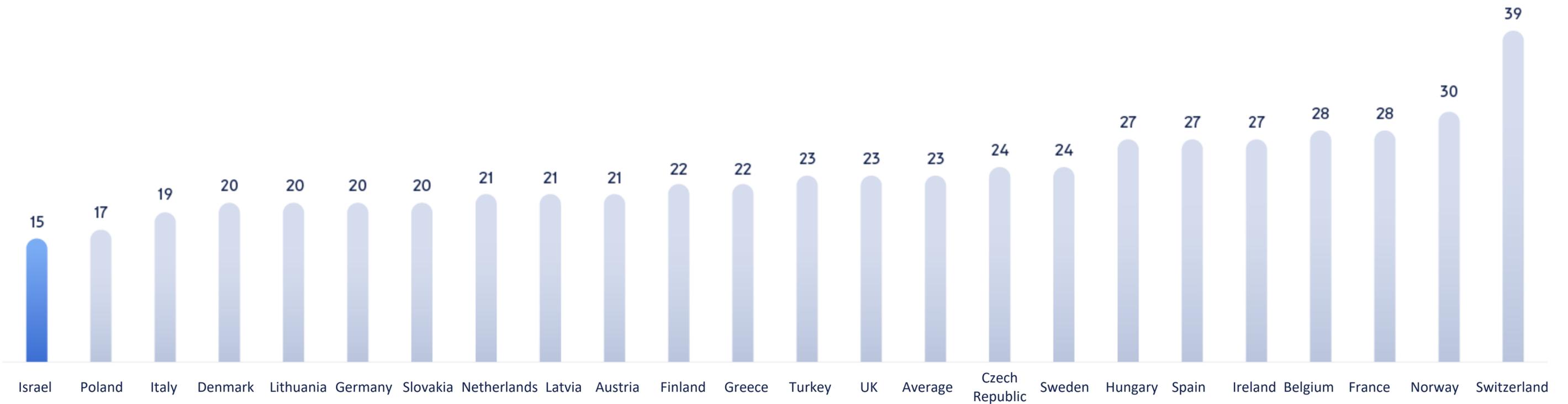
Cellular services - main strategy

Maintaining and strengthening the competitive position, while striving to increase revenues and improve profits

- Continued growth in consumer segment through optimal value proposition that combines fast and advanced network with quality services
- Continued deployment of the fastest 5G network in Israel as growth engine, both by upgrading existing subscribers and contributing to ARPU, and by recruiting new subscribers and adding services
- In the corporate segment – maintain competitive position through good customer relationships, quality services and continued expansion of business services
- Leverage advanced 5G capabilities to create future growth engines such as private networks for business, IoT, robotics applications, automation, smart transportation and more

Cellular ARPU international benchmark

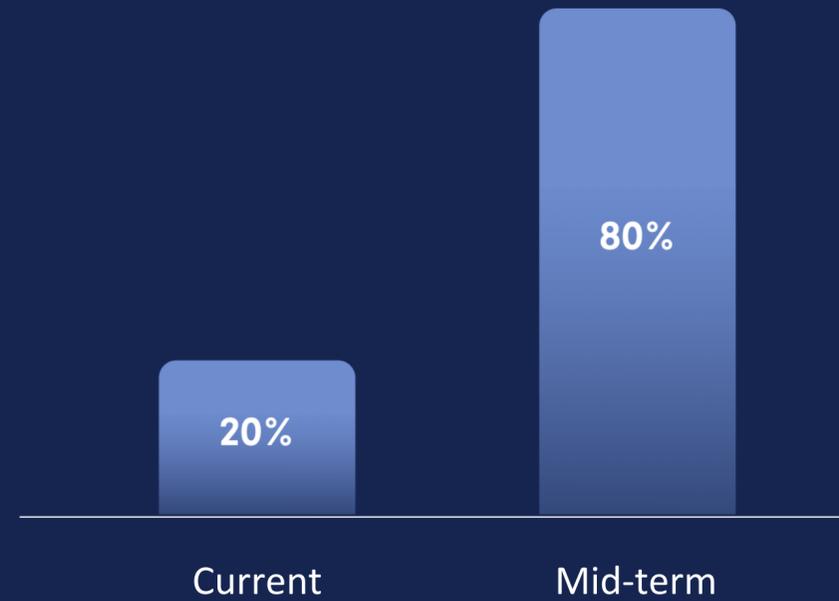
Average monthly cellular revenue per user (ARPU) in different countries, 2019
Adjusted to PPP, in USD



Sources: Ministry of Communications based on Analysis Mason

The move to 5G is expected to contribute to ARPU

% of 5G subscribers from total postpaid subscribers

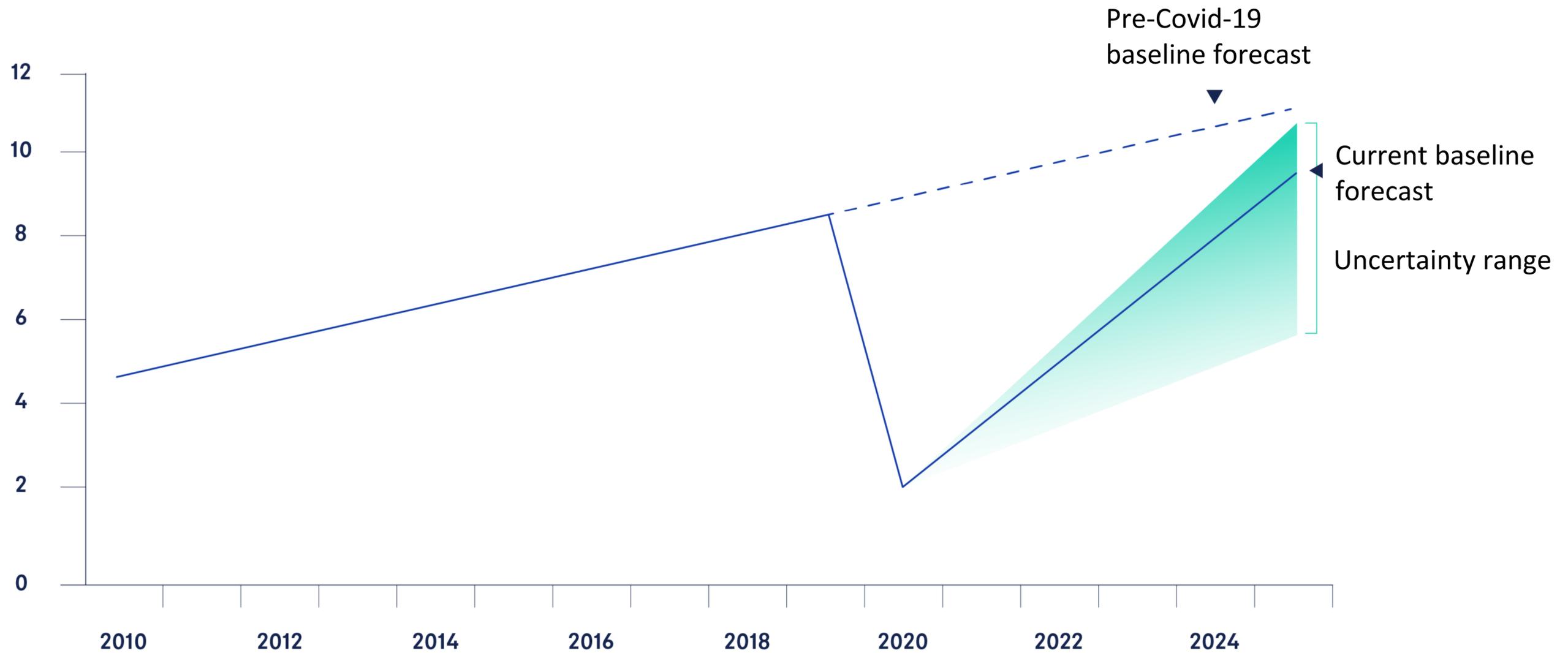


Currently, 5G packages are sold for approx. NIS 8.5 more than average 4G packages

As well as a recovery of roaming revenues

Global Aviation Industry Recovery Forecast:

(Global RPKs, trillions per year)



Recovery in the volume of international travel holds the potential for a NIS 3-4 increase in ARPU due to roaming activity





ICT services for businesses

Investment in building capabilities that will enable significant growth

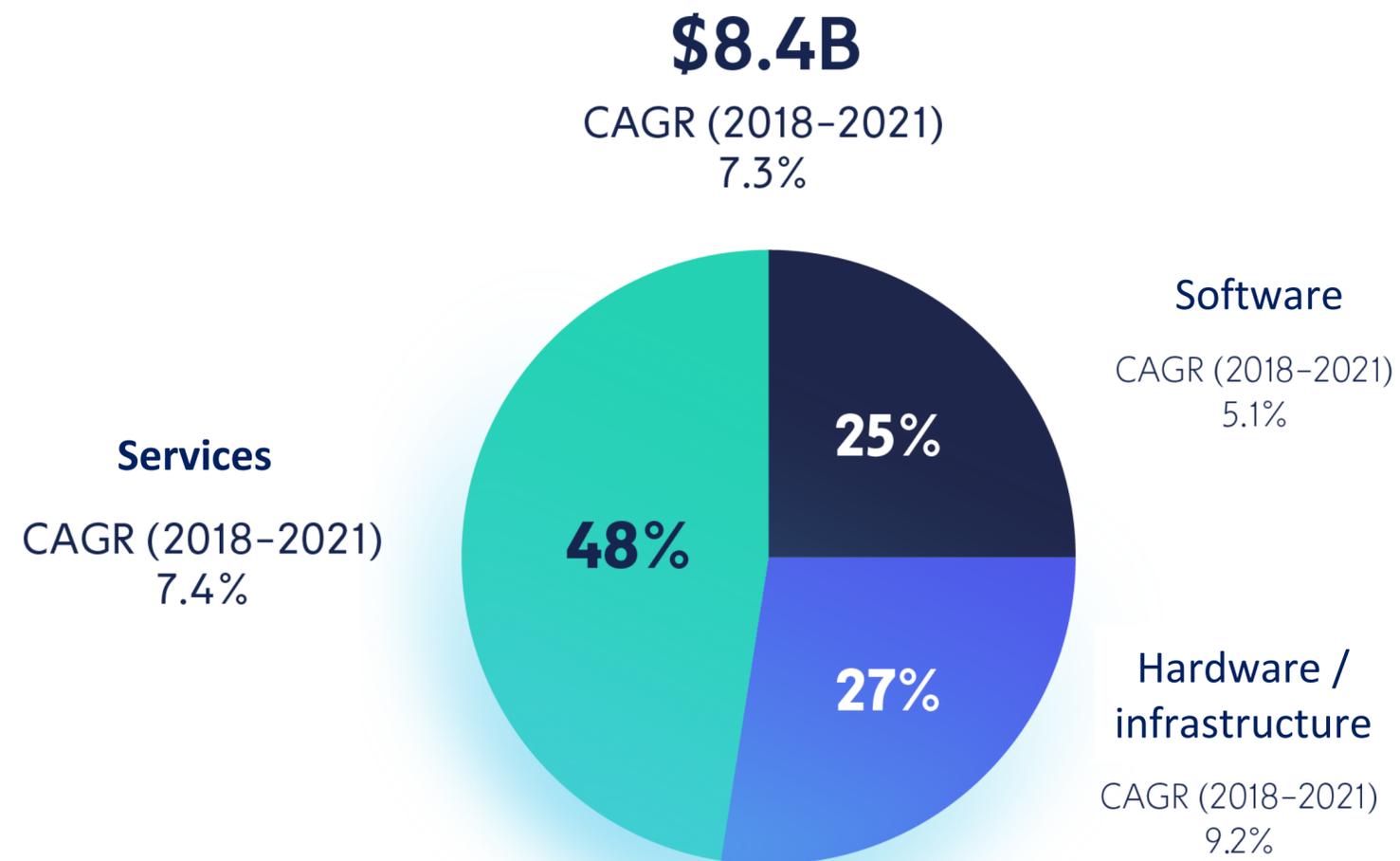
ICT services for businesses – main strategy

Investment in building capabilities that will enable significant growth

- The business ICT market is enjoying a **growth trend** "fueled" by the transition of services and **platforms to the cloud**, creating opportunity for expansion in the field
- Transforming Bezeq International's ICT operations into an independent entity will **enable management focus** and resources allocation to **achieve growth in the arena**
- **Investment in order to build capabilities** and strengthen competitive position, both through development and recruitment of professional personnel and through **acquisition of companies in adjacent/complementary fields**, as well as collaborations with partners from Israel and abroad
- This initiative has the potential to unlock **significant 'hidden' value**

The IT market in Israel is a large market with accelerated growth in recent years

The IT market in Israel - 2021



The emerging ICT arenas - data center, cloud and cyber - will be the main growth engines for the new company

The 'New World' in ICT



Cloud

- Providing a variety of products, consulting and implementation services that support the transition of organizations to the cloud
- Leverage the accelerating trend of moving to the cloud in Israel by many companies and the effects of the 'Nimbus' project



Information and cyber security

Providing a wide variety of solutions in information and cyber security - from planning to executing projects in order to build information security infrastructure for companies as well as provision of managed services



Data Center

- Strengthening and expanding the supply of data centers- Establishment of another DC in cooperation with an international company (ServerFarm)
- Expanding the range of services and maximizing revenue per MW

Traditional core services



Integration

- Strengthening capabilities and utilizing Bezeq's built-in infrastructure advantages (connectivity, network, security) as allowed by structural separation constraints
- Position new ICT company as leading player aiming at strategic projects



Communication services: ISP & Data

Maintaining the company's leading position in International Data for businesses, business ISP and Hubbing

ICT revenues are currently ~ NIS 600 million per year, the goal is to reach revenues of ~ NIS 1 billion per year, among other through M&A, with 5-6% operating margin

Accelerated growth is expected in public cloud and data centers in light of the Nimbus project and the entry of international players

The entry of international firms

Microsoft Israel to launch regional data center in 2022

Amazon in talks to build three Israel data centers for NIS 1b

Google to Build Data Center in Israel for Its Cloud Services

Oracle Reaffirms Commitment to Israel by Opening New Oracle Cloud Infrastructure (OCI) Region in Jerusalem

Nimbus Project

- The project deals with the establishment of cloud infrastructures that will be used by government ministries and trust units (including the IDF and the police) on public cloud platforms. The accompanying requirement for the project is the establishment of a local Cloud Region (cloud computing farm) in Israel
- The project is expected to attract massive investments in infrastructure and includes a number of tenders - for cloud providers (won by Amazon and Google) and a variety of related services
- The decision to establish 'Region' in Israel is also significant for the business sector, it will allow for a significant increase in the use of cloud computing by organizations that have been held back due to the inherent risks caused by the use of cloud services outside Israel

The accelerated development of the server farm sector is expected to generate demand for cloud services, integration and accelerate the use of communication networks

Beyond business initiatives, the group is working on improving foundations which will support mid-term growth



The group will continue to strive for **operational excellence**, by expanding the **digital transformation**, streamlining the cost base and **improving** market response times and flexibility

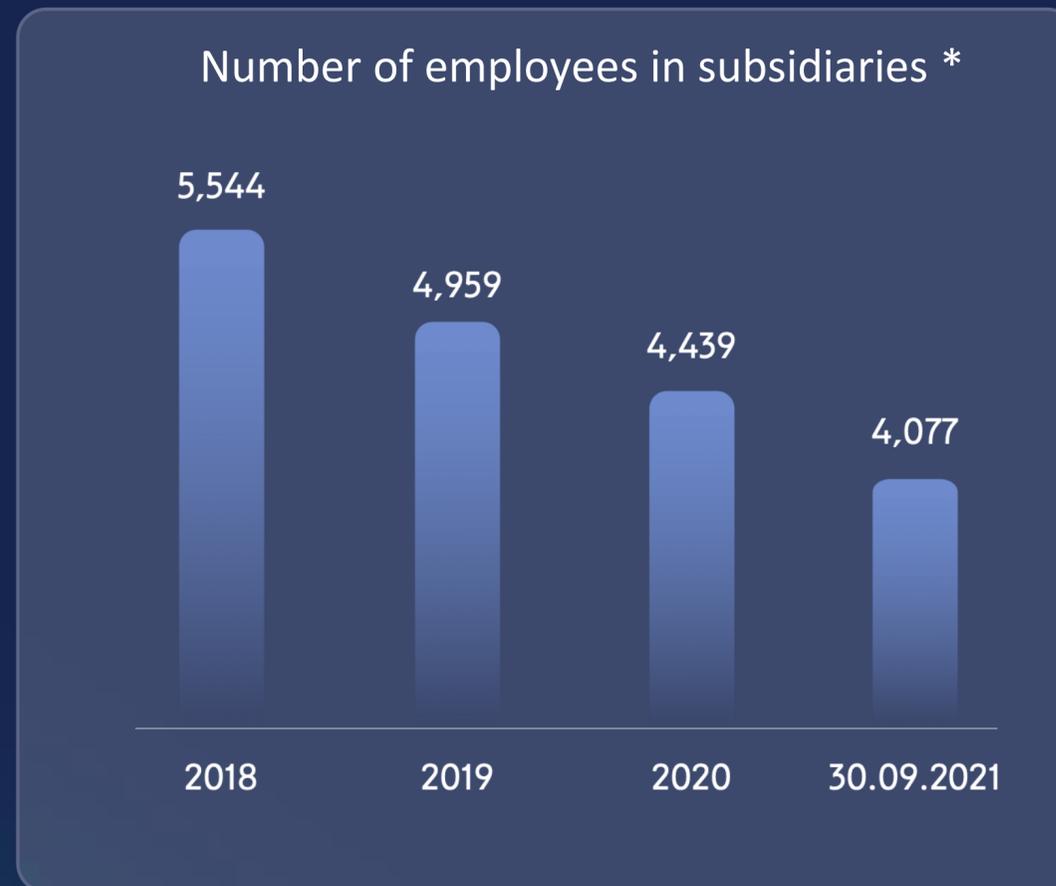


Continued implementation of **operational synergies** within subsidiaries, while merging and consolidating sales and logistics systems



Strive to **remove structural separation**, which will enable the realization of additional synergies

Significant streamlining executed in recent years at subsidiaries and are expected to continue in the coming years as well



A decrease of about 1,400 employees since the beginning of 2018



A decrease of approximately NIS 174 million since the beginning of 2018

In the medium term the goal is to continue streamlining with a further reduction of ~500 employees starting in 2022



* Pelephone, yes and Bezeq international
** LTM – Last twelve months ending Sept. 30th 2021

Additional strategic moves - diversification



The Group will seek investment opportunities in areas adjacent and complementary to the Group's activities and competitive capabilities



Investment and acquisition initiatives will allow for higher shareholder returns through entrance into areas with higher growth than the Group's core and legacy activities



Portfolio diversification will allow for risk diversification and reduce impact of regulatory risks

The Group will formulate investment and acquisition strategy to identify opportunities to increase shareholders' returns

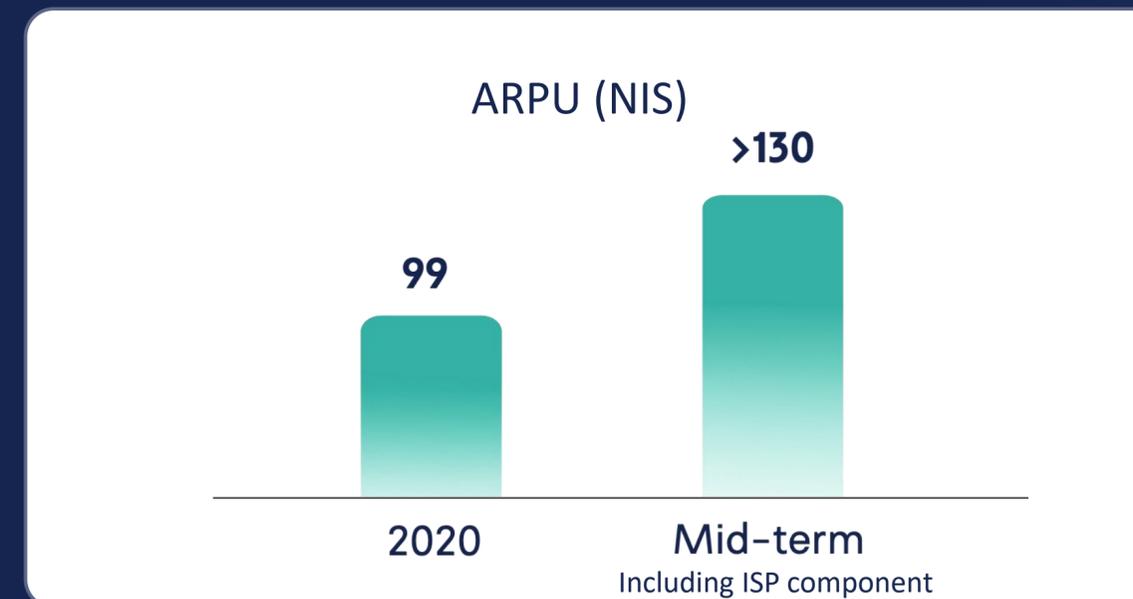
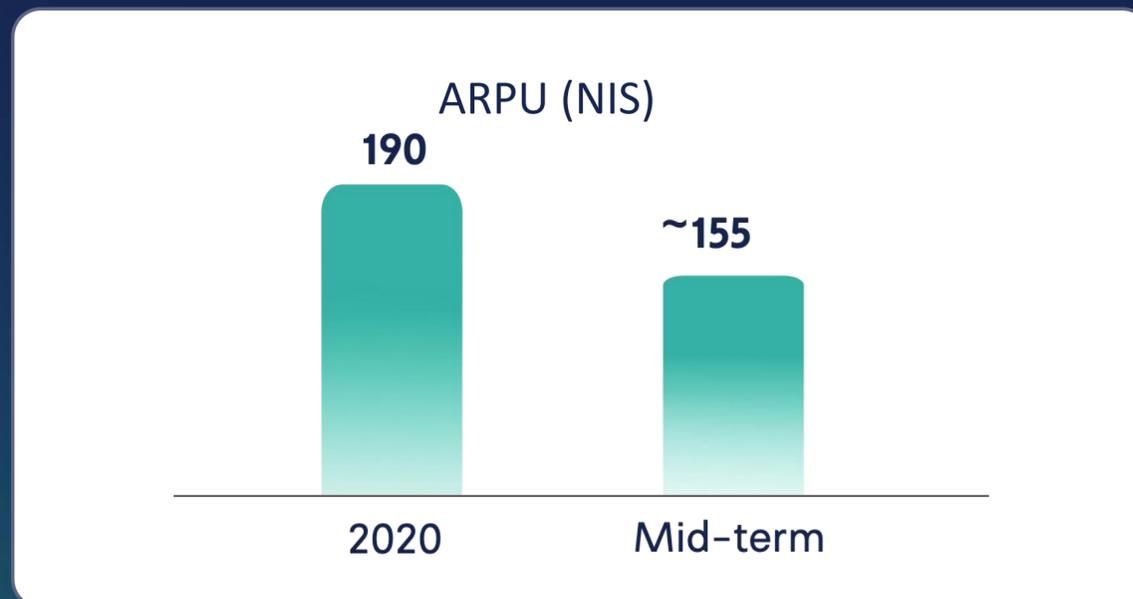
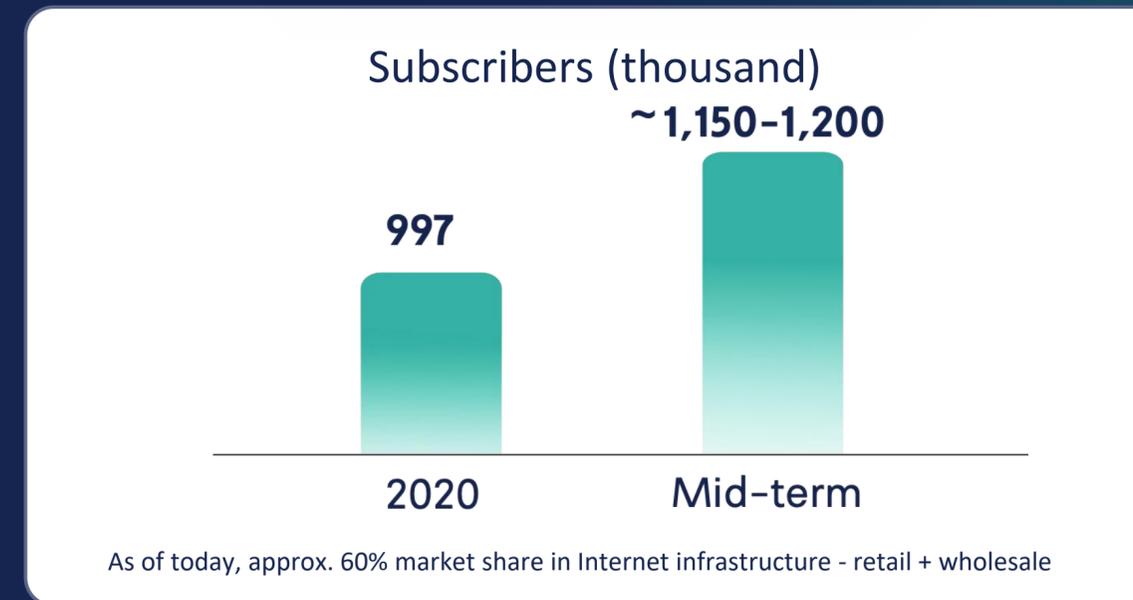
Summary of mid-term ambitions

KPIs – Communications, data and content services for households

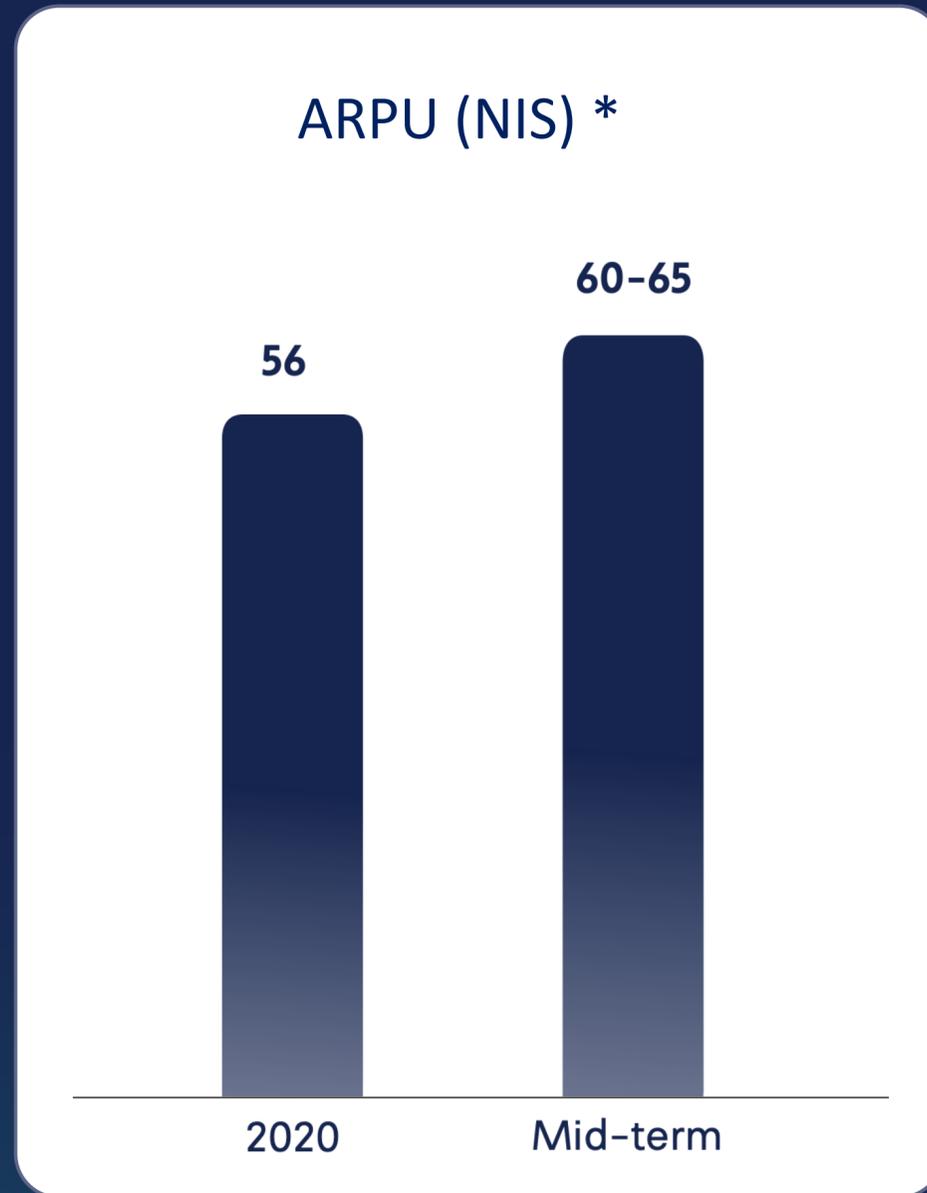
TV



Retail Internet



KPIs - Cellular services



Continued subscriber growth combined with expectation for ARPU improvement



*Excludes possible effect of change in Inter-connect fees

Optimal cash flow and capital management

**Create value for shareholders
while maintaining credit rating within the AA group**

CAPEX level that enables long-term growth



Debt and coverage ratios levels that enable to maintain credit rating within the AA group



Complementary investments and acquisitions as needed



Dividend distribution that contributes to shareholders' returns, while maintaining financial strength and Group stability

The Group aims to maintain its high credit rating within the AA group

While aligning debt repayments to cash flow generation capabilities and maintaining significant liquidity alongside a return to dividend distributions



Summary of mid-term ambitions

Continued growth in adjusted EBITDA and increase in FCF as compared to 2021

Temporary CapEx increase in the coming years for the accelerated deployment of fiber, followed by return to multi-year average

Return to dividend distribution while maintaining credit ratings within the AA group

ESG

ESG

What has been done so far?

Publishing of corporate responsibility report for 2019 and review for 2020

Improvement in the group's rating:

- **MSCI**
Increase from BB to BBB
- **Bloomberg**
From a 16.5 mark in 2018 to a 39.1 mark in 2019

Publishing of human rights policy update

ESG – corporate responsibility targets

Deployment of **fiber optic** network to approx. 80% of households by 2026, contributing to advancing the digital revolution and connecting periphery with central areas

- Greenhouse gas **emission reduction**
- **Reduction in energy** consumption
- Dedicated projects to **increase occupational diversity**

Continued improvement in ratings with different agencies (e.g. MSCI, Sustainalytics, ISS, Bloomberg, VE)

Bezeq aspires to be one of the leading companies in ESG



Summary

01

Fiber as growth engine

02

yes as a 'triple-play' growth engine to accelerate fiber growth

03

5G as revenue growth driver

04

Establishment of a leading ICT company

05

Business portfolio diversification to create additional growth sources

06

Maintain balanced capital structure and return to dividend distribution

Creation of significant growth engines while continuing streamlining process



Bezeq

Thank you

