

BEZEQ

Q3 2019 INVESTOR PRESENTATION

November 18, 2019



Bezeq

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Bezeq - Largest Telecom Group in Israel (Q3 2019)



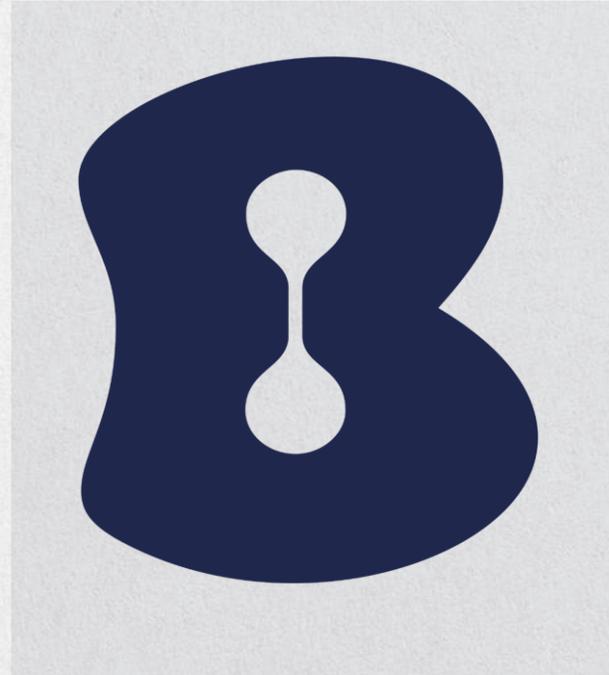
Q3 19 Revenues of
NIS 2.2 billion



Q3 19 Adjusted EBITDA of
NIS 979 million



1.7 million fixed
access lines



2.3 million
cellular
subscribers



Ratings: Aa2.il, ilAA-



558,000 Pay-TV
customers



1.6 million
broadband lines

Bezeq Group Vision and Strategy

Group Vision

To lead the telecommunications market in Israel, providing a full range of telecommunications products and services for the private and business markets and striving for continuous improvement in its operating results

Group Strategy

- ▶ Lead the telecommunications market through the ownership and operation of quality and advanced infrastructures and provide the best service while fully complying with regulatory restrictions
- ▶ To meet the technology, business and service-oriented needs for all telecommunications requirements of the Company's customers
- ▶ To focus exclusively on Israel's domestic market
- ▶ Emphasis on the Group's profitability in the medium term, rather than market share, as a strategic goal
- ▶ Strive for financial stability and improvement in aggregate results with ongoing efficiency and controlled risk taking
- ▶ Until the removal of structural separation is complete, the Group will operate in two business units

Bezeq Fixed-Line

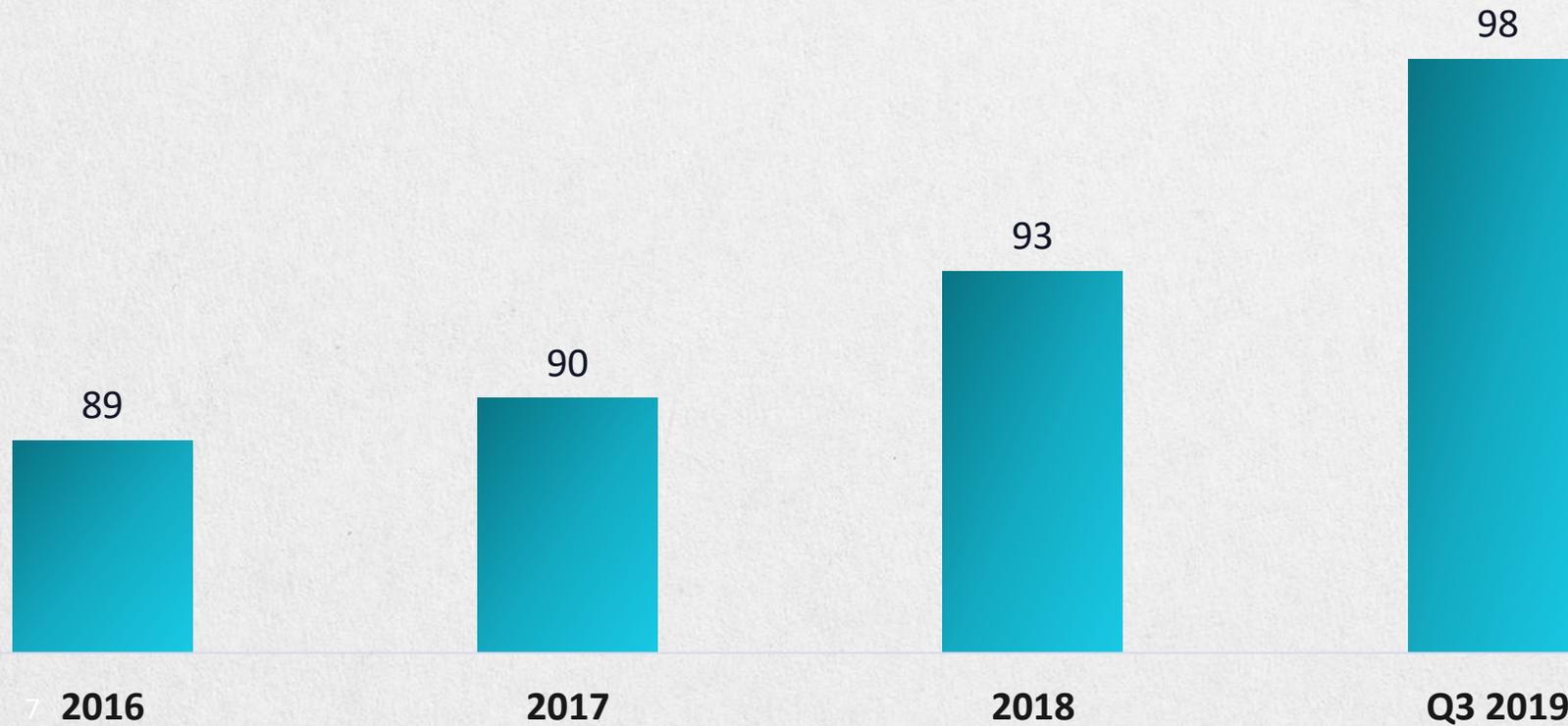
Bezeq Fixed-Line – Focus on Customer Premises

Bezeq Fixed-Line is putting the customer's premises at the center and is working to deepen the customer experience through a variety of services

- ▶ Strengthening the wireless network at the customer's premises
 - ▶ Enhanced home broadband experience with the **BE router** and **Bspot service**, leading to a decrease in customer churn
 - ▶ Since its launch in April 2018, more than 272 thousand customers have upgraded to the **BE router** (~ 27.5% of total Bezeq broadband retail lines)
- ▶ Bezeq will continue to support a secure home broadband experience through the launch of products such as MESH, antivirus, network support and smart homes

Bezeq Fixed-Line – Average Revenue Per User (ARPU), NIS

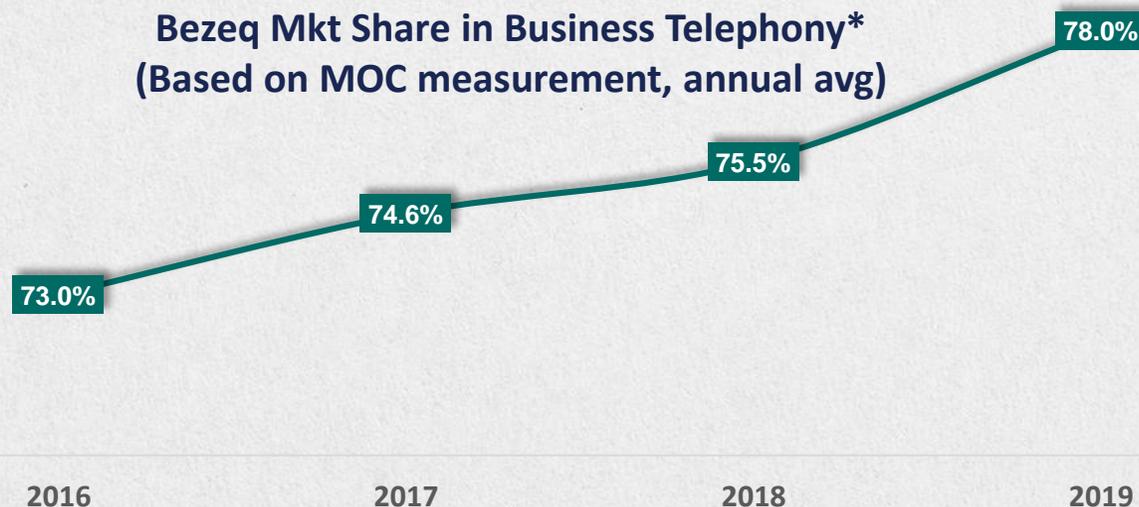
Ongoing increase in ARPU due to increased penetration in customer premises services as well as value added services



Bezeq Fixed-Line - Leader in Business Segment

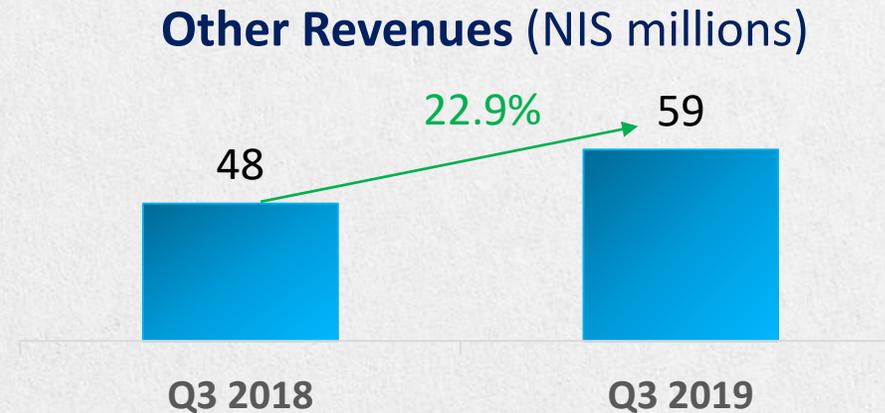
Bezeq leads in business solutions and serves ~180,000 SMEs in Israel

- ▶ Bezeq is enhancing its services in the business sector while providing tailor made solutions to suit customer needs
- ▶ Selling diversified business oriented telecommunications solutions such as virtual exchanges, smart businesses, business call router, IPC, business camera, WIFI, remote backup, cyber for businesses
- ▶ Technological and infrastructure advantage – High speed Internet based on fiber optic network
- ▶ Simplifying service and sales processes through digitalization of client interfaces



Bezeq Fixed-Line – Retail Market

- ▶ In 2019 Bezeq Fixed-Line entered the terminal equipment market - in the first stage through the sale of smartphones and televisions and in the future, the offering will expand to additional end-user equipment
- ▶ Other revenues in Q3 2019 increased 22.9% y-o-y due to increased sales of terminal equipment



- ▶ Advanced and diversified services in business customer premises
 - ▶ Creating a wide variety of integration solutions over the Bezeq cloud

-  Managed switches
-  Call Center
-  Data security
-  Vcloud

Bezeq Fixed-Line - Reduction in operational real estate sites and sales of redundant assets

Actions Taken

- ▶ The sale of the “Sakia” complex resulted in capital gains of NIS 403 million and net cash flow of NIS 259 million in the first nine months of 2019
- ▶ The Company signed an agreement to transfer Bezeq's headquarters from Tel Aviv to Holon in 2021. The move is expected to result in savings of tens of millions of shekels in operating expenses.
- ▶ Bezeq has begun to convert some of its properties to Data Centers utilizing the Company's physical layout, communication connections and energy durability in currently owned buildings

Plan

- ▶ Real estate sites have been reviewed and the Company is examining the sale of additional properties in the coming years

Proceeds from the sale of real estate in 2020 are expected to be ~NIS 240 million*

* Pursuant to cash flow forecast in Q3 2019 Directors' Report

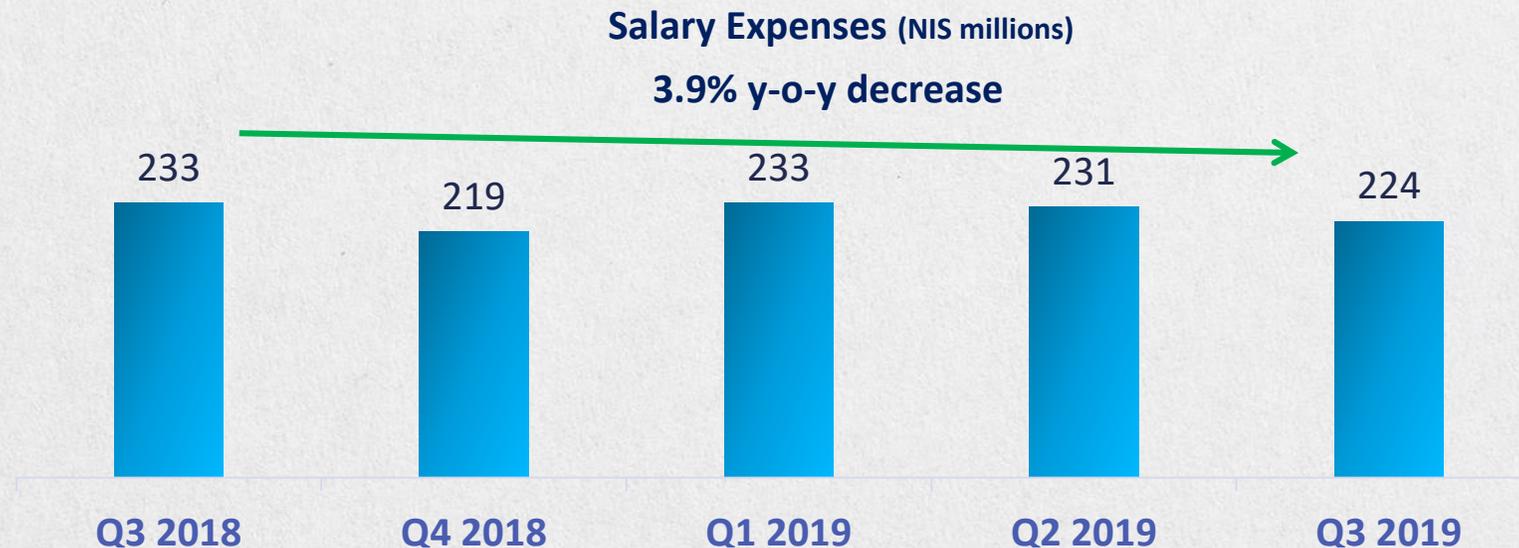
Bezeq Fixed-Line - Employee Streamlining

In 2019, 261 employees left the Company as part of the employee streamlining plan

The Company intends to take advantage of the total potential of the retirement plan for hundreds of additional employees under the terms of the current collective agreement (until 2021)

Retirement expenses are expected to be lower in the future as a result of the accounting provision recorded in 2018 for all of the Government transferred employees

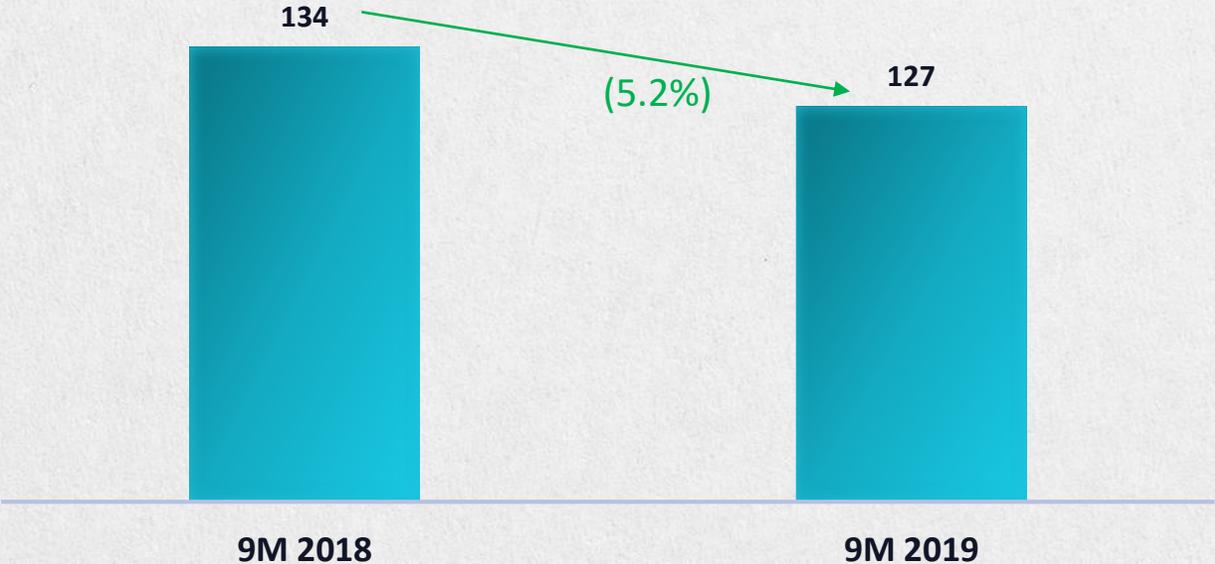
In Nov 2019, The Board of Directors approved the retirement of 140 permanent employees and 60 employees with flexible status. A provision of NIS 137 million is expected to be recorded in Q4-19



Bezeq Fixed-Line – Decrease in Operating Expenses (NIS m)

Operating expenses (excluding terminal equipment and materials) decreased y-o-y

Total Operating Expenses* (NIS millions)



* Excluding terminal equipment & materials

Subsidiaries



yes. | yes - Israel's Favorite Content Brand*

Leading Content:

Original, diverse and high quality;
Top class international content



Advanced and widest streaming service in Israel; Quality viewing experience

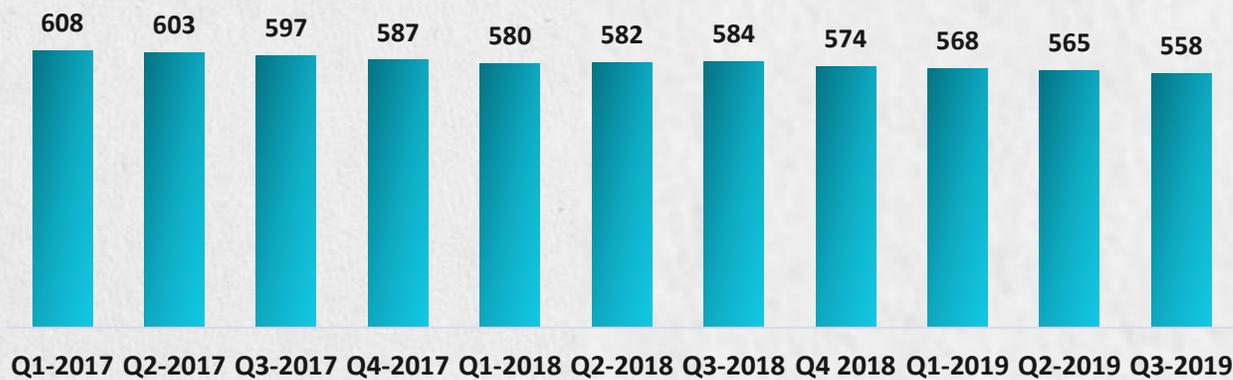


Brand with the highest customer satisfaction



In March 2019
yes won 21 awards
at the Israeli
Academy Awards

Subscribers (in thousands)



*According to the Globes index of 2018

yes.

Transition to IP Broadcasting to Enhance Viewing Experience and Reduce Costs

yes is gradually migrating from satellite to IP broadcasting in order to significantly upgrade the viewing experience as well as allow for the transfer of operations over the Group's infrastructure

- ▶ Over the next few years, yes will gradually replace set top boxes until full transition to IP service
- ▶ The fixed cost for satellite infrastructure will be replaced by the use of the Group's infrastructures
- ▶ Logistical flexibility and decrease in expenses such as: acquisition of set top boxes, installation and service costs
- ▶ Shelf STBs to replace tailor made – provides flexibility
- ▶ yes offers diversified and customized plans in IP: yes+ for premium and StingTV for low cost

In Q4 2019 yes began migrating customers through the launch of the yes+ service

Launch of **yes+** - Strategic Collaboration with Apple TV

Premium yes service alongside satellite - a significant step in the IP migration program



- ▶ Advanced and widest streaming service in Israel
- ▶ An innovative user interface with new and exciting features
- ▶ Collaboration with Apple including a unique pricing model that offers the customer Apple TV 4K in a rental model without the need to purchase the device alongside additional benefits
- ▶ Easy and convenient access to international apps alongside collaboration with Netflix, Google and IMDB whose ratings are integrated into the interface
- ▶ Will be available on all major IP viewing platforms in the coming months
- ▶ Premium yes service alongside satellite - a significant step in the IP migration program

TRIPLE Play Launch

- ✓ Adapting the offering to customer needs including Internet services, TV and home phone of Bezeq International and yes
- ✓ The triple play, which combines the company's services, will result in operating efficiencies in sales and services



yes TRIPLE.
הטריפל
הטוב בישראל!

מהיום תוכלו ליהנות
גם מהטלוויזיה המובילה של yes
וגם מהאינטרנט החזק והטלפון הביתי
של בזק בינלאומי

Icons: TV, Internet, Home Phone

yes.

yes for everyone

STINGTV by yes. + סדרות	STINGTV by yes. החבילה המושלמת	yes CLASSIC.	yes ULTIMATE.	yes+.
₪59	₪99	₪149	₪199	₪199

yes.

yes for everyone - triply play too

STINGTV by yes. + סדרות Triple	STINGTV by yes. החבילה המושלמת Triple	yes CLASSIC. Triple	yes ULTIMATE. Triple	yes+. Triple
₪155	₪199	₪249	₪299	₪299



Bezeq

- ✓ Leading ISP in Israel
- ✓ Advanced value-added services for Internet customers
- ✓ Operates high quality infrastructure including ownership of submarine cable



Wide Range of Business Solutions

- ✓ ICT solutions for business sector
- ✓ Growth engines and diversified solutions: cyber; cloud for businesses; DR, storage and backup
- ✓ Wide distribution of data centers
- ✓ Professional services in the areas of installation; service and project management in cyber security networking and systems

Bezeq International is a significant player in a growing market

Pelephone – Growth alongside Innovation



Subscriber Growth



- Subscriber growth for over 3 consecutive years
- Wide retail distribution
- Advanced cellular network in Israel
- Leading operator in business sector and cellular provider for Government offices

Innovation

Connected cars, PTT, IOT, Big Data, Cyber, Cloud, ESIM

Frequency Tender

Pelephone is preparing for the frequency tender published by the MOC. The frequencies will also be used for 5G



Pelephone - Subscriber Growth

Postpaid Subscribers* (in thousands)



Continued growth in the number of subscribers for more than three consecutive years mainly offset the decrease in prices and resulted in a significant slowdown in the erosion of revenues

*After adjusting for the disconnection and write off of CDMA subscribers in Q2-16 (101k) and Q2-17 (13k)



Key Processes - Synergies and Streamlining



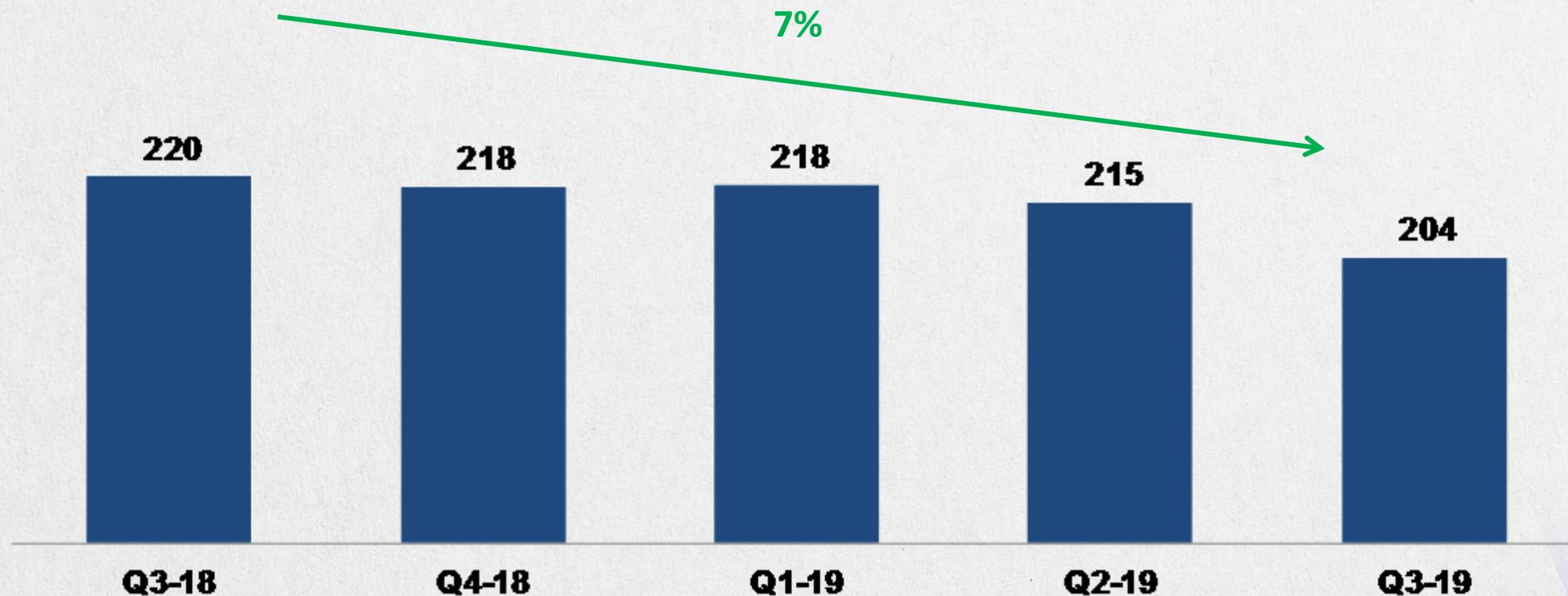
Maximizing Synergies in Subsidiaries – Employees and Labor Relations



International

- ✓ In 2019, agreements were signed in the three subsidiaries that allow the companies to realize synergies and streamline, thus reducing our workforce by a total of over 1,000 employees in the next two years in addition to the non-recruitment of additional employees
- ✓ Regulating labor relations and reaching agreements that allow for synergies and streamlining are a key element in the implementation of the subsidiaries' business plans
- ✓ The subsidiaries have begun to implement the efficiency plans in accordance with the agreements
- ✓ The agreements include the renewal of collective labor agreements until the end of 2021

Subsidiary Companies – Decrease in Salary Expenses (NIS m)

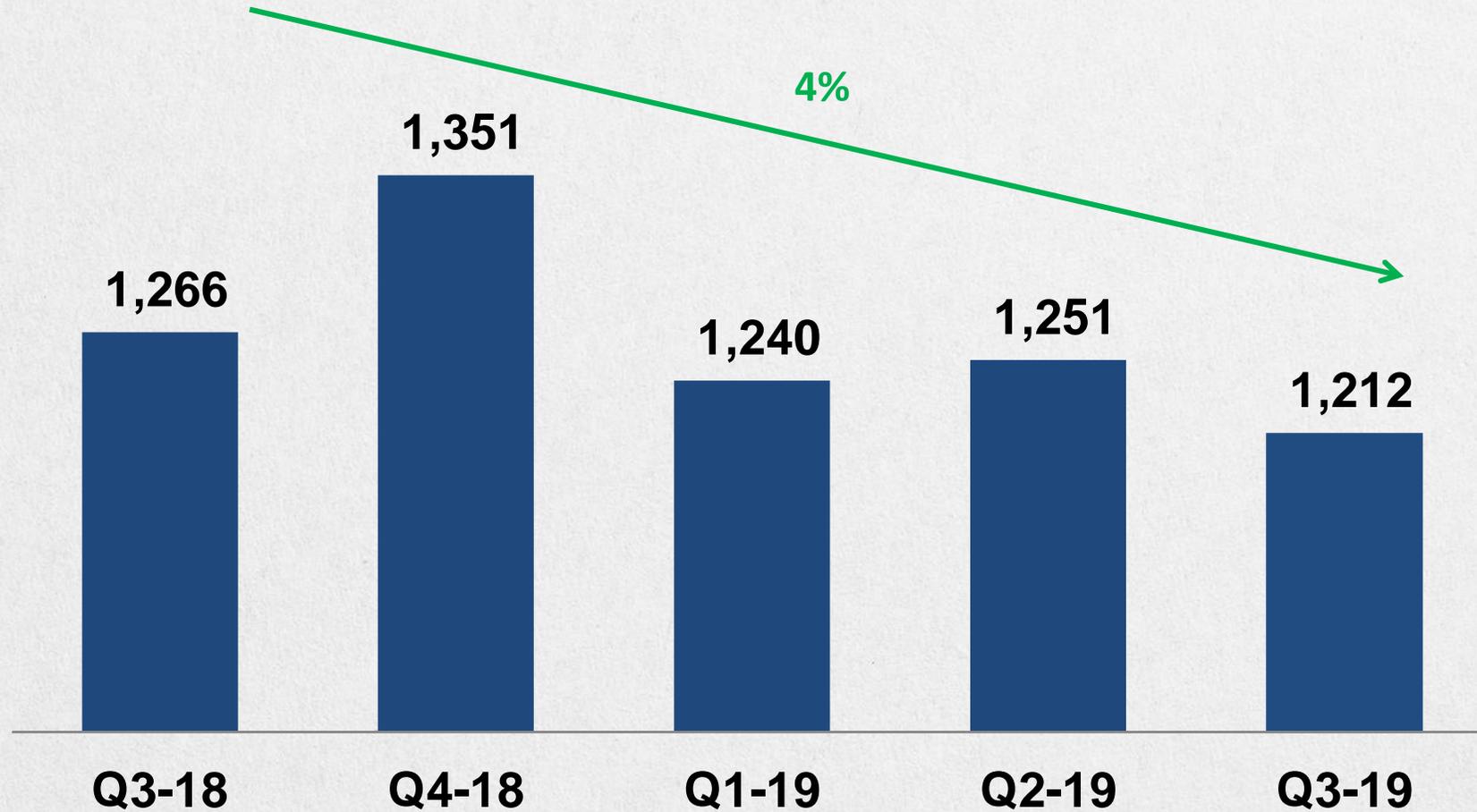


24

7% y-o-y decrease in total expenses in Q3 2019

24

Subsidiary Companies – Decrease in Total Expenses* (NIS m)



5% y-o-y decrease in total expenses in Q3 2019

*Bezeq International and yes – excluding Other Expenses

Maximizing Synergies and Streamlining – Additional Processes Implemented

- ✓ Transition to integrated management team while lowering number of senior managers by 50%; streamlining decision-making processes while saving millions of shekels per year
- ✓ Financial savings due to joint purchasing which will deepen over time
- ✓ RFP published for unified CRM system for subsidiary companies
- ✓ Telephone - Savings expected due to transfer of corporate headquarters to Petach Tikvah in 2020

Maximizing Synergies in Subsidiaries – Processes in the Pipeline to Improve Sales and Services

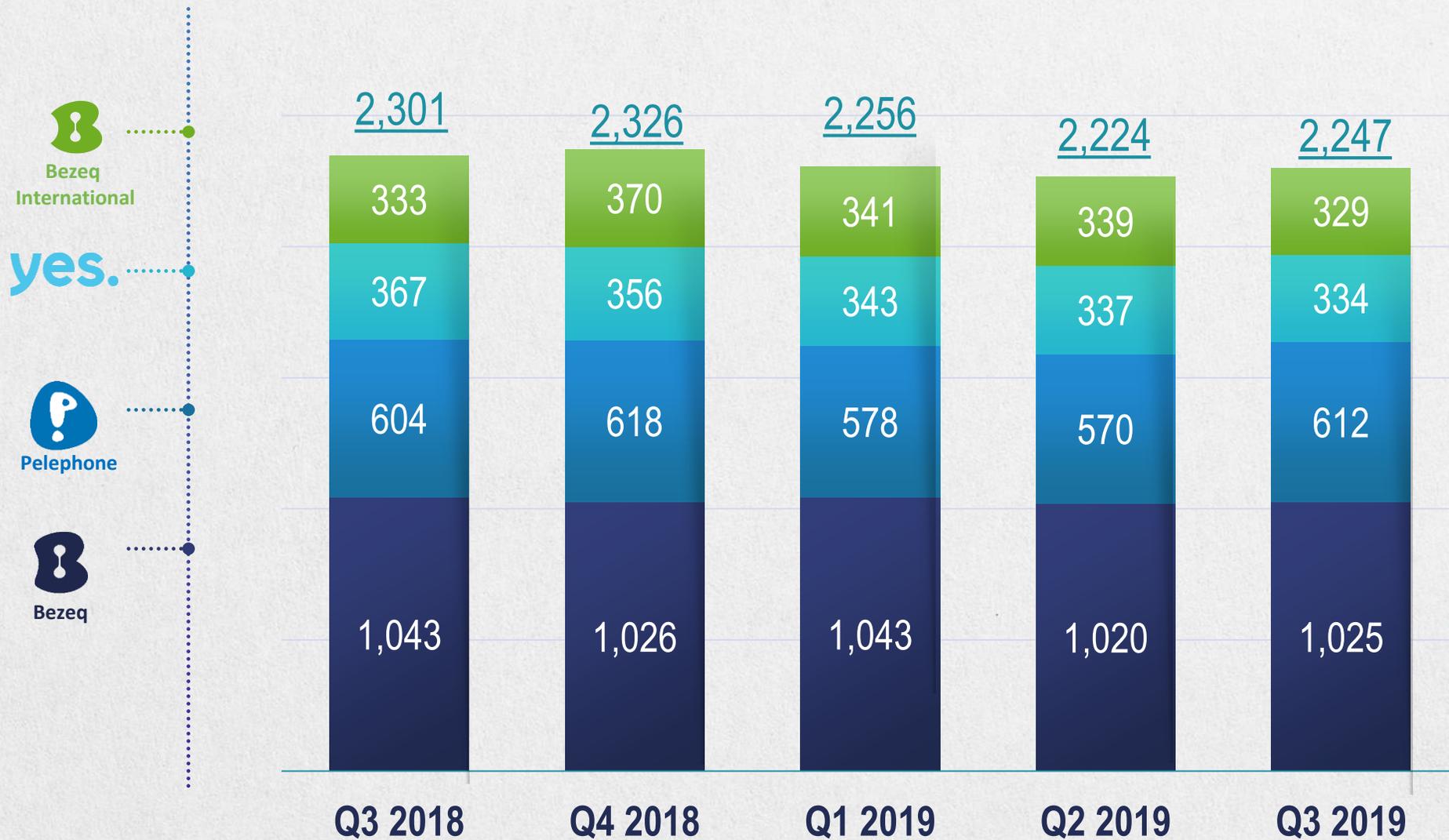
One point of contact with the customer - improve service and reduce churn

Cross-selling - Improve marketing capability for customers who do not currently receive service from the three companies (by operating joint IT systems)

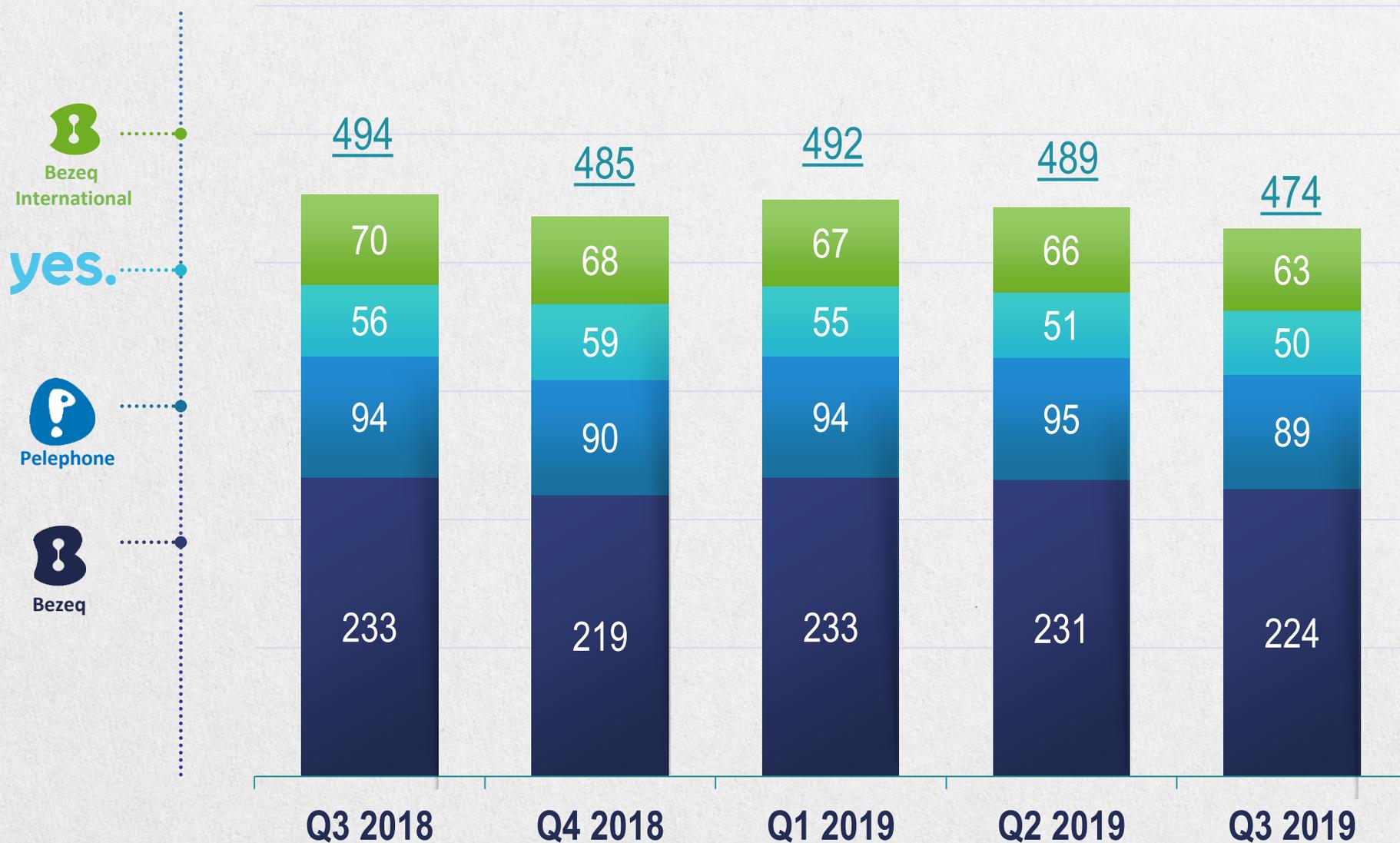
Maximize synergies of the various distribution and service channels of the three companies - ONE STOP SHOP

Q3 2019 Financial Results

Bezeq Group – Revenues | (NIS millions)

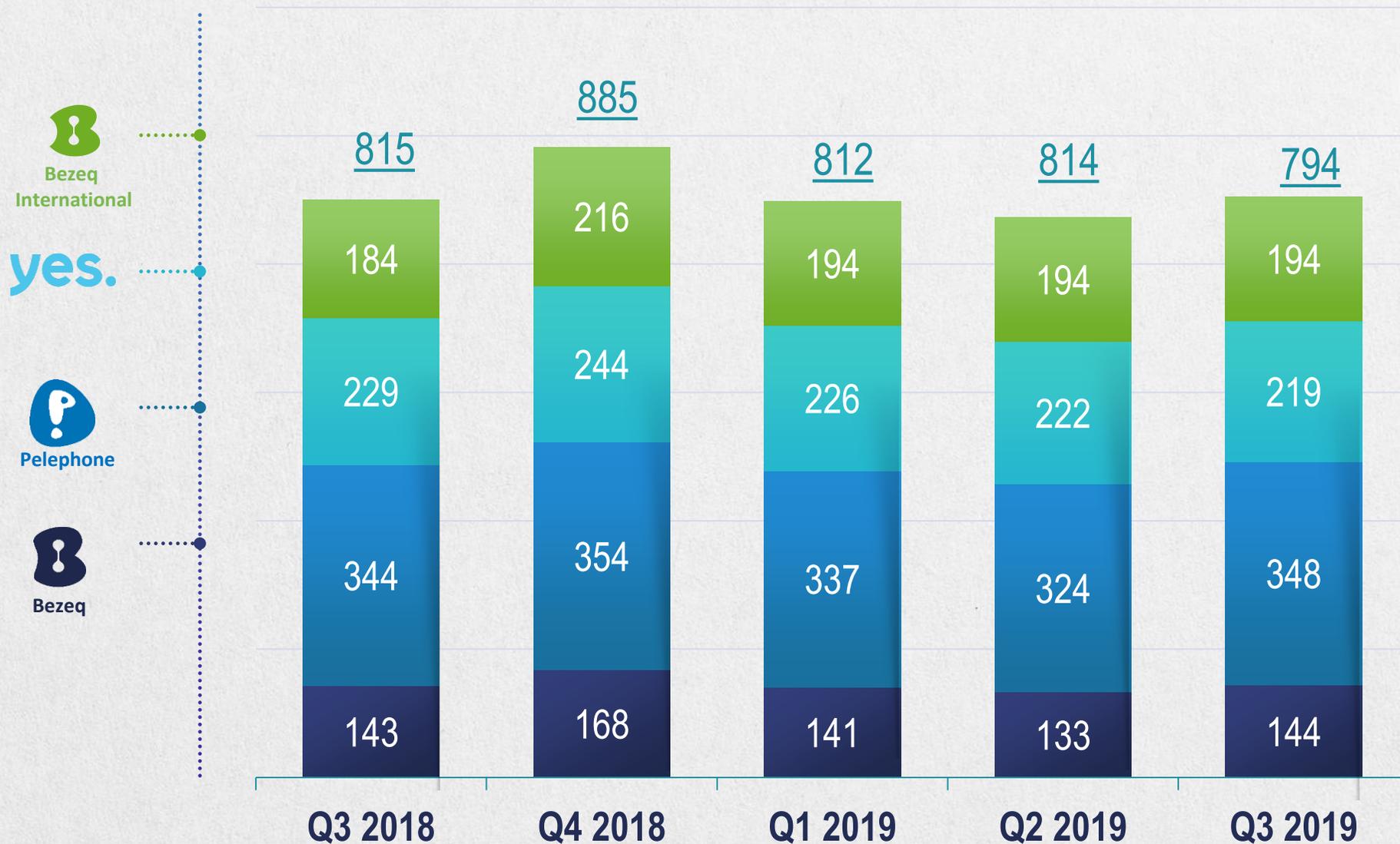


Bezeq Group – Salary Expenses* | (NIS millions)



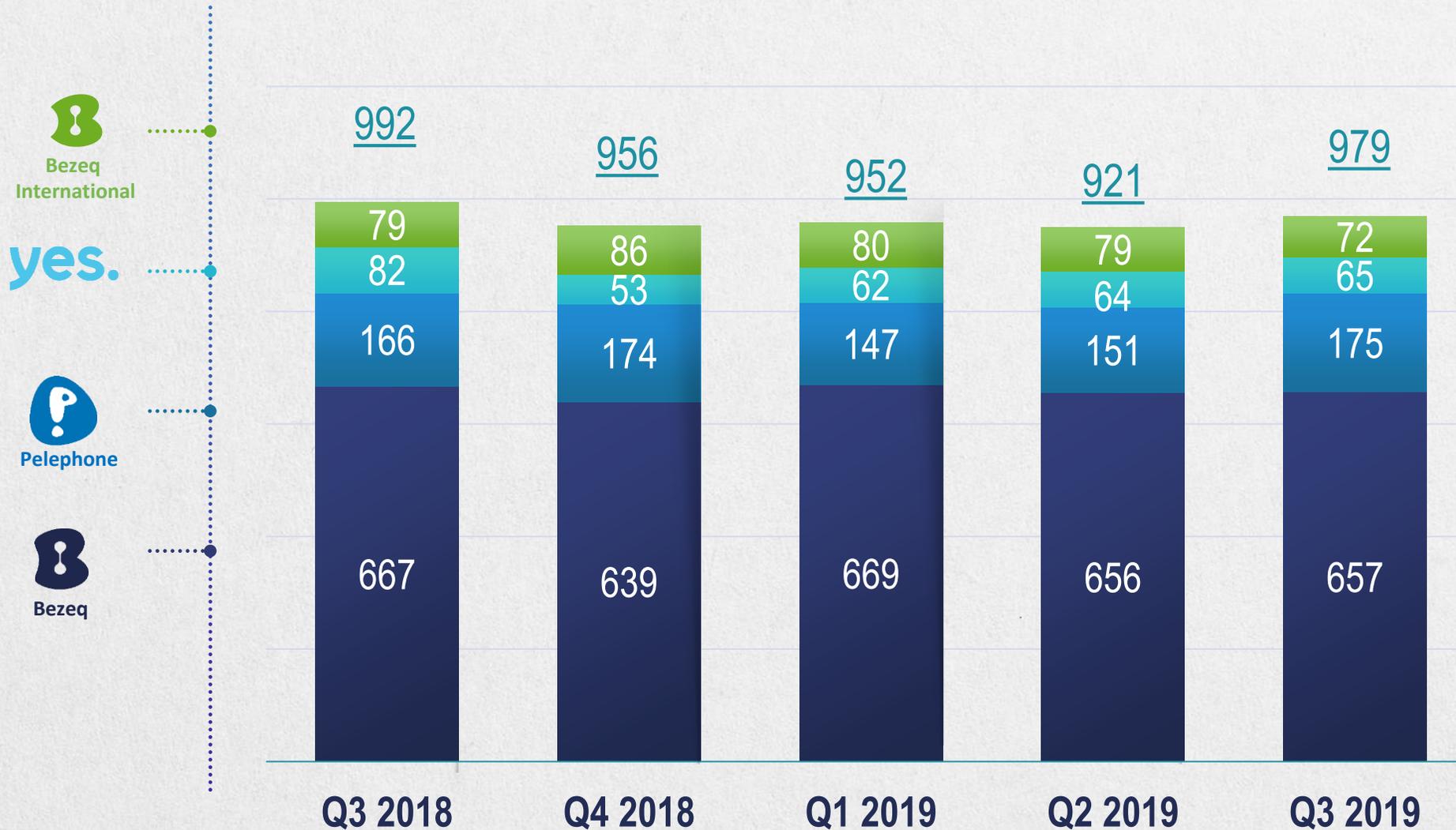
*yes –proforma numbers

Bezeq Group – Operating & General Expenses* | (NIS millions)



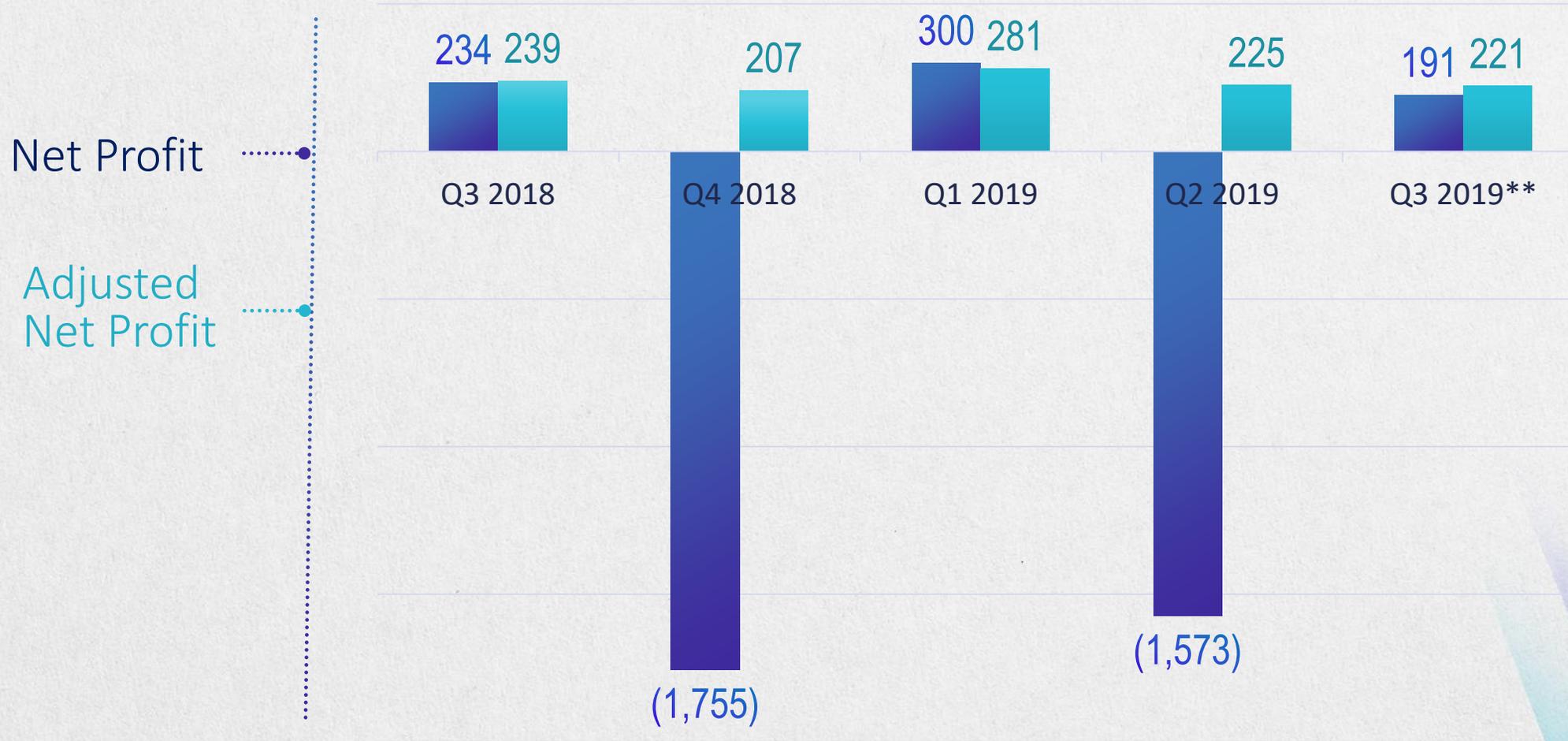
*yes –proforma numbers

Bezeq Group - ADJUSTED EBITDA* | (NIS millions)



*EBITDA adjusted for other operating expenses/income, net and one-time losses from impairment of assets
yes –proforma numbers

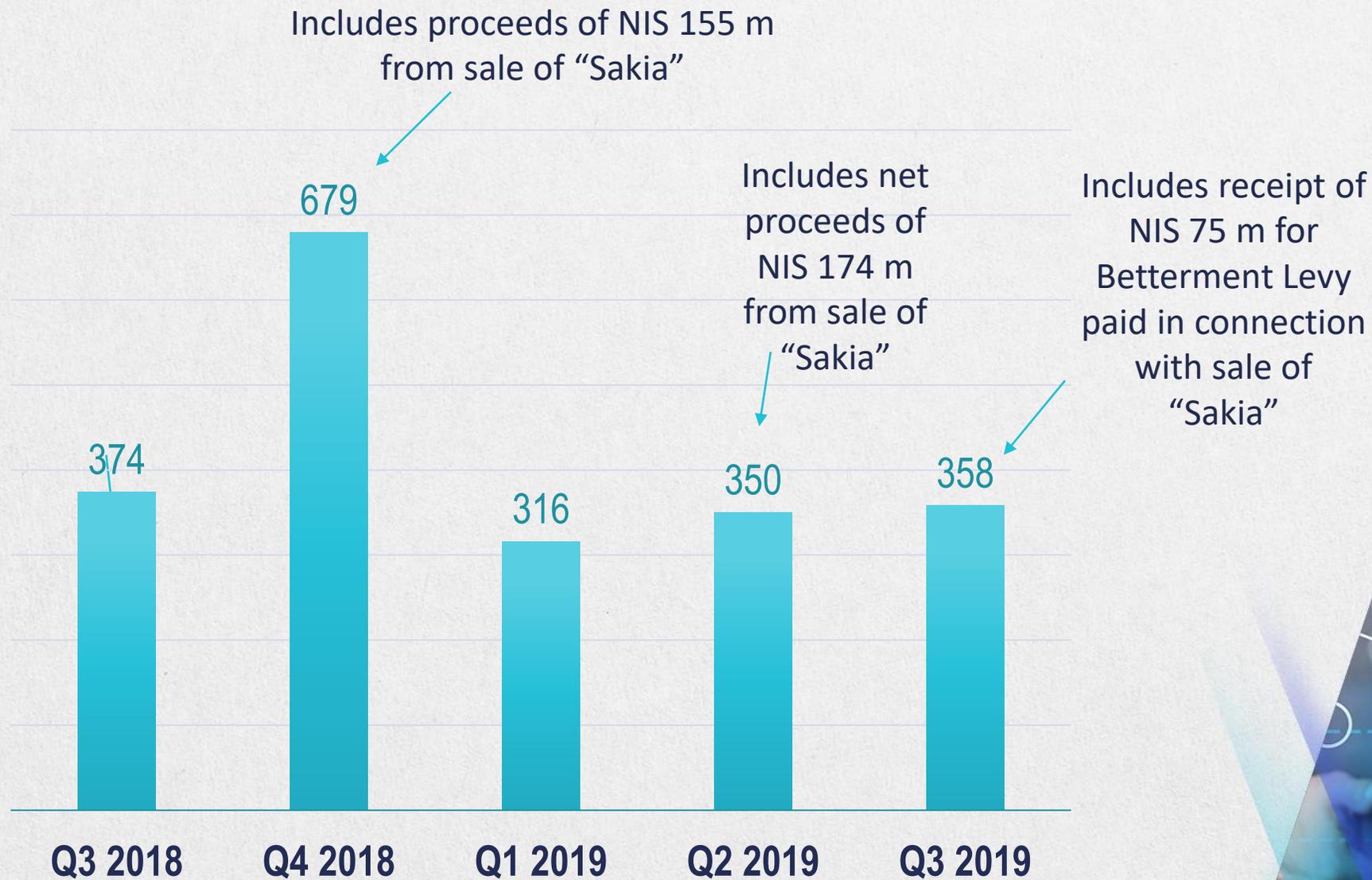
Bezeq Group - Net Profit/Adjusted Net Profit* | (NIS millions)



*Adjusted for other expenses/income, net and one-time losses from impairment of assets

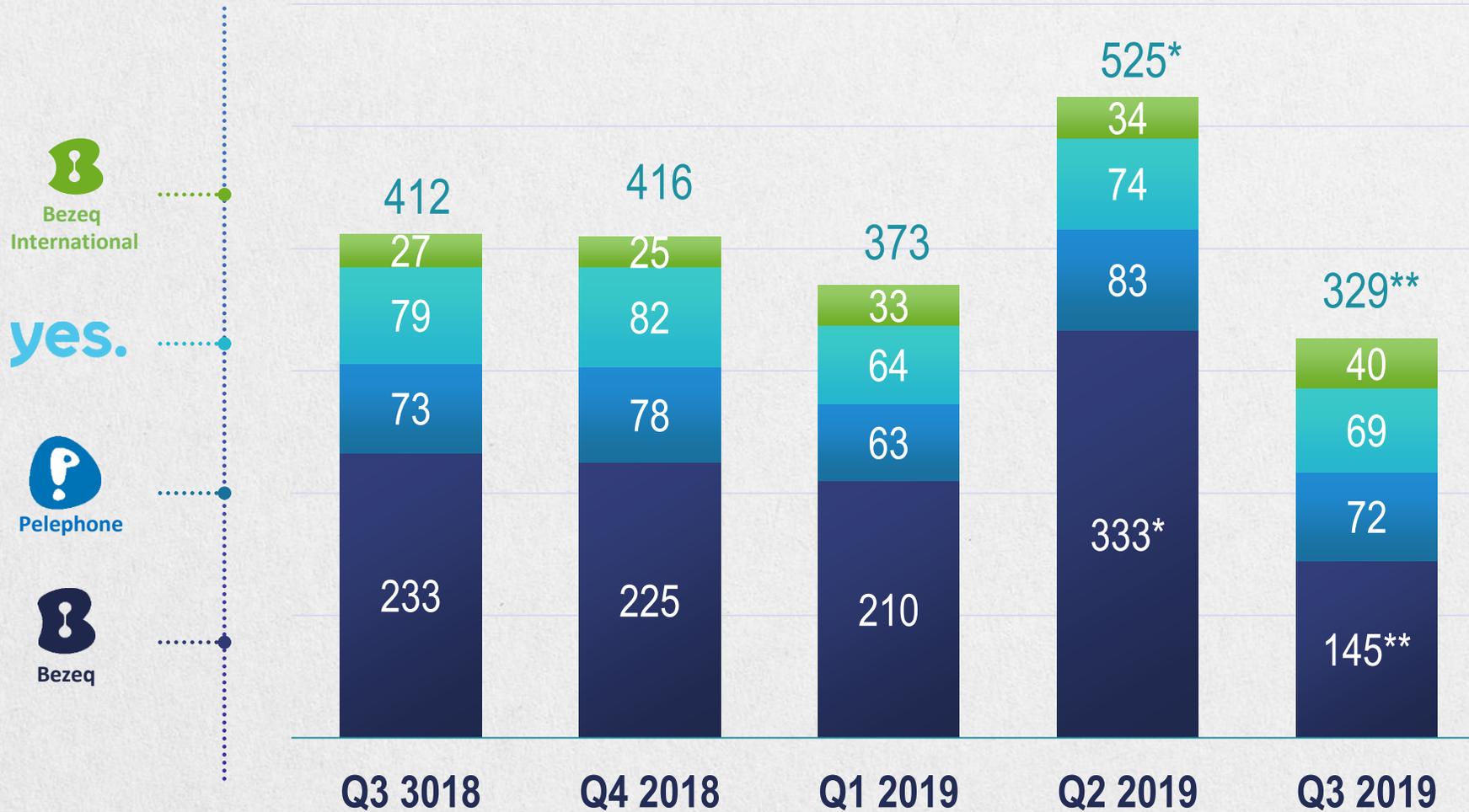
** Includes one-time financing expenses of NIS 73 million for fees paid for the early repayment of debt as well as financing expenses of NIS 42 million in respect of provisions for employee benefits.

Bezeq Group - Free Cash Flow | (NIS millions)



Bezeq Group - Gross CAPEX | (NIS millions)

Continued investments will maintain the future leadership and operational efficiency of the Bezeq Group



*Includes payment of NIS 149 million for betterment levy in Q2 2019 in connection with the "Sakia" transaction

** After deducting receipt of NIS 75 million in Q3 2019 for betterment levy paid in connection with the "Sakia" transaction

Bezeq Group - KPIs

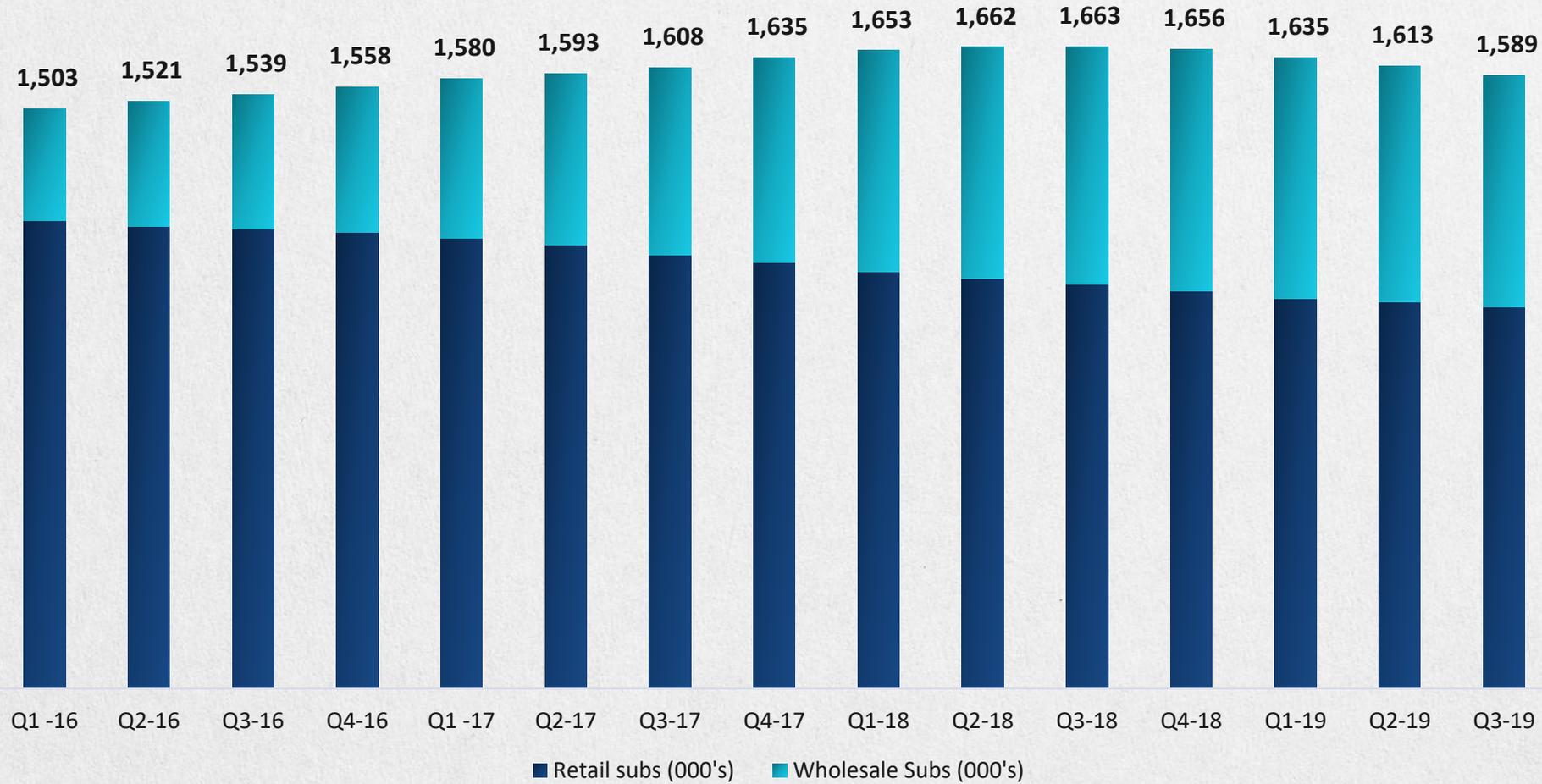
Subscribers (end of quarter, in thousands)



ARPU (NIS per month)

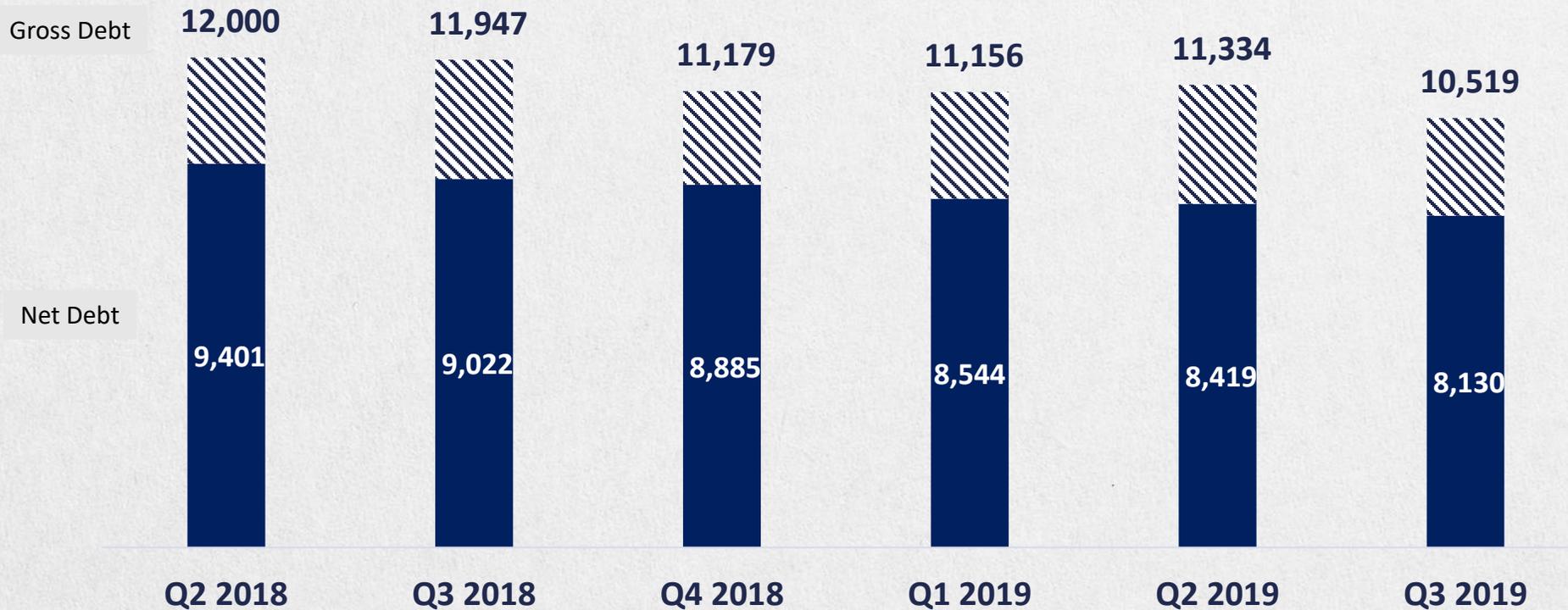


Broadband Internet Trends | Retail and Wholesale



Bezeq Group – Net Debt | (NIS millions)

Debt continues to decrease over time



y-o-y decrease of NIS 1.4 billion in gross debt
y-o-y decrease of NIS 900 million in net debt

Financial Debt

- ▶ Bezeq's responsible and prudent management of all financial aspects of the Company will provide financial flexibility and ensure its long-term financial strength

- ▶ **Principles of financial debt management:**

- I. Continue to adapt the Company's debt structure to its needs
- II. Seek to maintain prudent debt coverage ratios and AA credit rating range
- III. Operate with high cash balances

- ▶ **Actions taken in 2019:**

- I. The Company raised NIS 1.69 billion and made early repayments of debt of NIS 1.97 billion
- I. The average duration of debt increased from 3.5 to 4.0 with the raising of long-term debt and repayment of short-term debt

Bezeq Group - 2019 Outlook

Due to extraordinary items in the second quarter of 2019 (write-off of the tax asset, impairment loss in Telephone assets and the recording of capital gains from the sale of the "Sakia" complex) as well as the inclusion of estimated costs for early retirement in the Outlook, on August 29, 2019 the Bezeq Group updated its Outlook for 2019, as originally published in the Company's periodic report as of December 31, 2018 ("Original Outlook").

There is no change to the Outlook since the Q2 2019 update. We continue to expect:

Net loss : Approximately **NIS 1.1 billion** (compared to net profit of NIS 900 million - NIS 1.0 billion in the Original Outlook)

EBITDA: Approximately **NIS 2.9 billion** (compared to NIS 3.9 in the Original Outlook)

CAPEX*: Approximately **NIS 1.7 billion** (unchanged)

The Company shall report, as required, deviations of more/less than 10% of the amounts stated in the Outlook.

**CAPEX - payments (gross) for investments in fixed and intangible assets*

Bezeq Group - 2019 Guidance (cont'd)

The Group's updated Outlook includes the write-off of the balance of the tax asset in respect of losses from yes of NIS 1.166 billion, an impairment loss in Telephone assets of NIS 951 million, capital gains of NIS 403 million from the sale of the "Sakia" complex and provisions for the early retirement of employees in Bezeq Fixed-Line, Telephone, Bezeq International and yes. It is noted that NIS 213 million of the total forecasted provisions for early retirement have not yet been recorded as actual provisions in the financial statements and represents an estimate that may not be realized.

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations and do not include the effects, if any, of the cancellation of the Group's structural separation and the merger with the subsidiary companies and everything involved therein in 2019. The Group's forecasts are based, *inter alia*, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2019. Actual results may differ from these estimates taking note of changes which may occur in the foregoing, in business conditions, and the effects of regulatory decisions, technology changes and developments in the structure of the telecommunications market, and so forth, or the realization of one or more of the risk factors listed in sections 2.20, 3.19, 4.14 and 5.19 of the Periodic Report of 2018, and specifically the risk factor detailed in section 2.20.12 of the Periodic Report of Q3 2019 regarding the impairment of assets in the subsidiary companies.

Thank You

For more information please visit
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