



Investor Presentation

Q3 2020



November 30, 2020



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Key Highlights - Q3 2020

As of the end of Q3 2020, the total impact of the COVID-19 pandemic on the financial condition of the Group companies

● **was immaterial**

- ▶ Adjusted net profit increased 39.6% y-o-y*
- ▶ Adjusted EBITDA decreased 4.8% y-o-y
- ▶ Decrease of NIS 869 million in net debt (y-o-y) and improved liquidity ratios
- ▶ Updated guidance for 2020 due to improved group operating performance

Bezeq Fixed-Line

- ▶ Increase in total revenues for the second consecutive quarter
- ▶ Continued improvement in key operating metrics:
 - ▶ Increase in retail broadband Internet subscribers for the second consecutive quarter
 - ▶ Increase in telephony ARPL
 - ▶ Increase in retail broadband Internet ARPU

Subsidiary Companies

- ▶ Decrease in mobile roaming revenues due to COVID-19 pandemic
- ▶ Streamlining measures led to decrease in operating expenses
- ▶ Growth in Telephone postpaid subscribers
- ▶ Positive free cash flow in yes – first time since Q1-18
- ▶ Increase in yes IP subscribers
- ▶ Launch of 5G network

Regulation

- ▶ Government decision approving fiber optic deployment plan
- ▶ Hearing published regarding Bezeq Fixed-Line ISP license

*Increase in adjusted net profit driven by decrease in financing expenses in Bezeq Fixed-Line due to early repayment of debt in the corresponding quarter

Bezeq International - Restatement

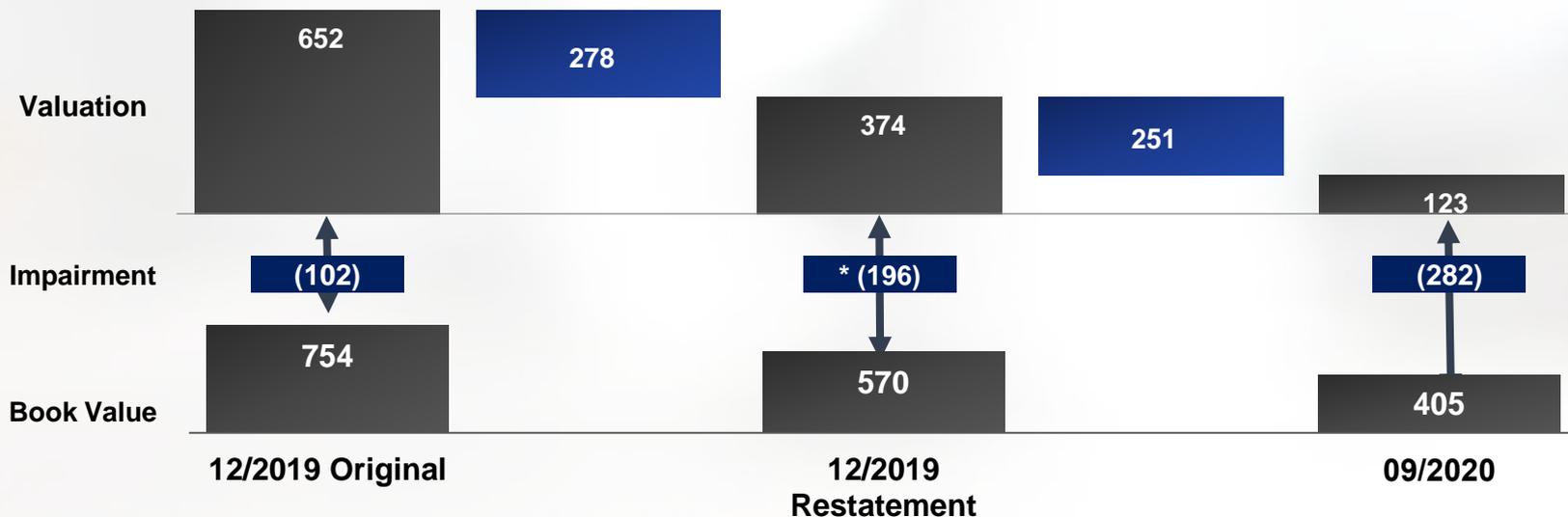
- ▶ As part of the preparation of Bezeq International's financial statements for Q3 2020, discrepancies in net asset balances beginning in 2002 were discovered internally by Bezeq International's CFO. The cumulative effect of the discrepancies resulted in an impairment in the 2019 reports
- ▶ The financial data in the December 31, 2019 and September 30, 2019 reports were restated in order to reflect the effect of the above amendment, and the data for the Q1 20 and Q2 20 reports will be restated as well

The company is seriously reviewing the information discovered and intends to take all necessary measures to fully investigate and draw the necessary conclusions. The Company's Board of Directors has appointed the CPA firm, Fahn Kanne, as an independent and external investigator for the purpose of an in-depth investigation of the matter

Bezeq International – Impairment in Assets

▶ In addition to the accounting issue, the financial results were impacted by the impairment of assets in Bezeq International due to its adjustment for paying customers who have not used Bezeq International's ISP services for an extended period

▶ Below is a flowchart of the impairments in Bezeq International:



• The additional impact on the restated 2019 reports was NIS 94 million (NIS 196 million less NIS 102 million recorded in the original report)

Bezeq International – Impairment in Assets

► Explanation of changes in valuation of Bezeq International:

	NIS million	
Valuation as of 31/12/2019 before restatement	652	
Decrease in book value due to restatement of net asset balances	(184)	Difference between prior book value (NIS 754m) and current book value (NIS 570m)
Cancellation of impairment recorded in 31/12/2019 reports before restatement	102	} (94) Recorded as other expenses
Impairment in 31/12/2019 restated reports	(196)	
Total change 31/12/2019	(278)	
Valuation as of 31/12/2019 after restatement of reports	374	
Net impairment due to revised estimates 30/09/2020	(282)	} (251)
Other changes 1-9/2020	31	
Book value 30/09/2020	123	

- Total impairments: NIS 376 m (94+282)
- Total decrease in book value due to restatement of net asset balances: NIS 184 m
- Other changes 1-9/2020: NIS 31 m
- Total reduction in valuation: NIS 529 m (376+184-31)

Bezeq Group - 2020 Outlook

Based on the information known to the Bezeq Group today, the Group's updated Outlook for 2020 is as follows:

	Updated Outlook	Previous Outlook
Adjusted net profit* attributable to shareholders	NIS 1.05 billion	NIS 950 million
Adjusted EBITDA*	NIS 3.6 billion	NIS 3.5 billion
CAPEX**	NIS 1.5 billion	NIS 1.5 billion

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

* Adjusted net profit and Adjusted EBITDA – after adjusting for other operating expenses/income, net and one-time losses/gains from impairment/increase in value of assets. Adjusted EBITDA and Adjusted Net Profit in 2019 were NIS 3.73 billion and NIS 950 million, respectively.

**CAPEX - gross payments for investments in fixed and intangible assets. CAPEX in 2019 amounted to NIS 1.55 billion

2020 Outlook - Bezeq Group (Cont'd)

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 2020.

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 2020. Actual results may differ from these estimates taking note of changes that 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 the Periodic Report of 2019. In addition, there is no certainty that the outlook will be fully or partially fulfilled, among other things, due to the COVID-19 pandemic and the resulting uncertainty.

Regarding the adjusted net profit and the adjusted EBITDA, attention is drawn to the impairment recorded in the Company's books in connection with in connection with asset balances in Bezeq International as well as subscribers of Bezeq International. The impairment is not included in the outlook and therefore does not affect the forecasted "adjusted net income" and "adjusted EBITDA" as this does not include a one-time loss from impairment. However, this impairment will be included and will affect the Company's unadjusted net profit and unadjusted EBITDA in the amount of the impairment.

A photograph of three business professionals standing together. On the left, a woman in a grey blazer and white top holds a folder. In the center, a man in a dark suit and light shirt holds a tablet. On the right, a woman in a grey dress holds a tablet. A dark blue semi-transparent rectangle is overlaid in the center, containing the title and logo.

Bezeq Group Financial Results



Bezeq Group - Revenues | NIS Million



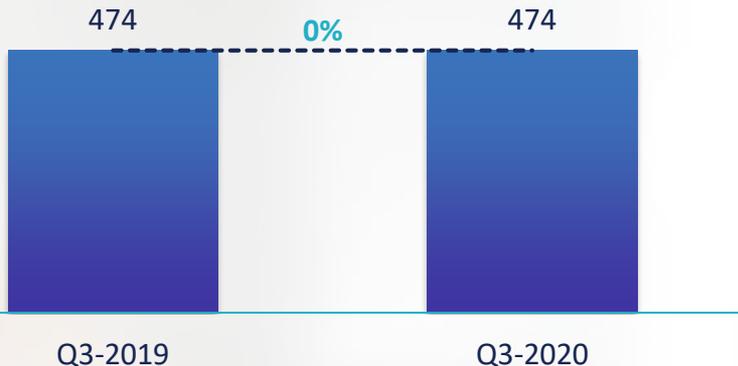
3.1% y-o-y decrease

Mainly due to a decrease in roaming revenues partially offset by an increase in Bezeq Fixed-Line revenues

The decrease in revenues of the subsidiary companies was partially offset by a 1.7% y-o-y increase in Bezeq Fixed-Line revenues

Bezeq Group - Salary and Operating Expenses | NIS Million

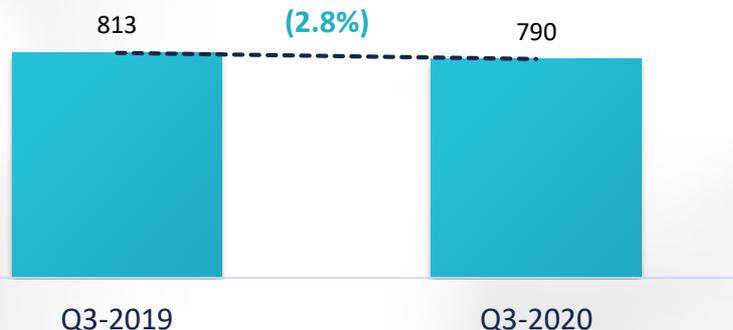
Salary Expenses, Net



► Stable y-o-y

Subsidiary companies - Decrease in headcount on top of the comprehensive streamlining plan, offset by an increase in Bezeq Online due to increased activity

Operating Expenses

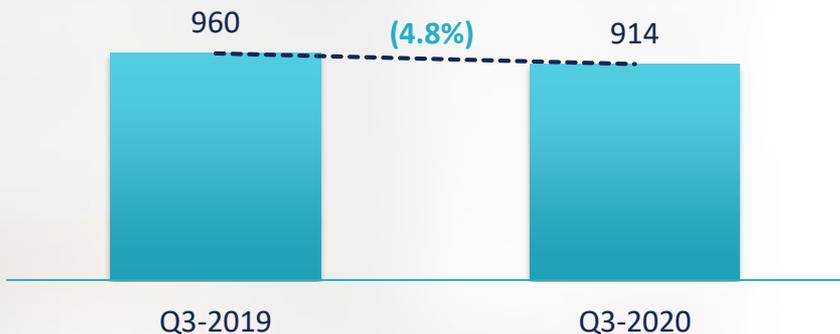


► y-o-y decrease 2.8%

Subsidiary companies – continued streamlining in operating expenses

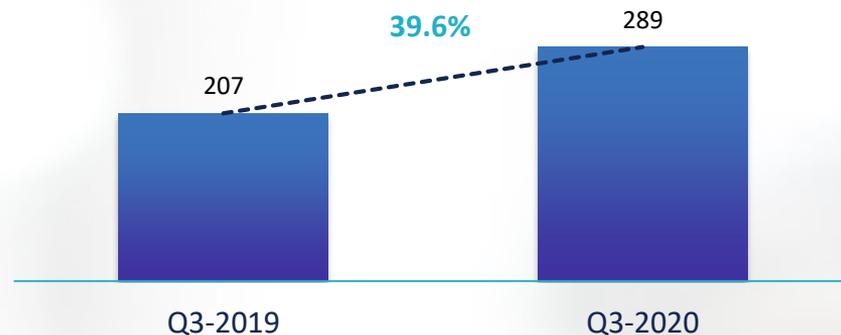
Bezeq Group - Adjusted EBITDA and Adjusted Net Profit * | NIS Million

Adjusted EBITDA



▶ 4.8% y-o-y decrease

Adjusted Net Profit



▶ 39.6% y-o-y increase
Decrease in financing expenses in Bezeq Fixed-Line due to early repayment of debt in Q3-19

39.6% y-o-y increase in Adjusted Net Profit driven by decrease in financing expenses in Bezeq Fixed-Line

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

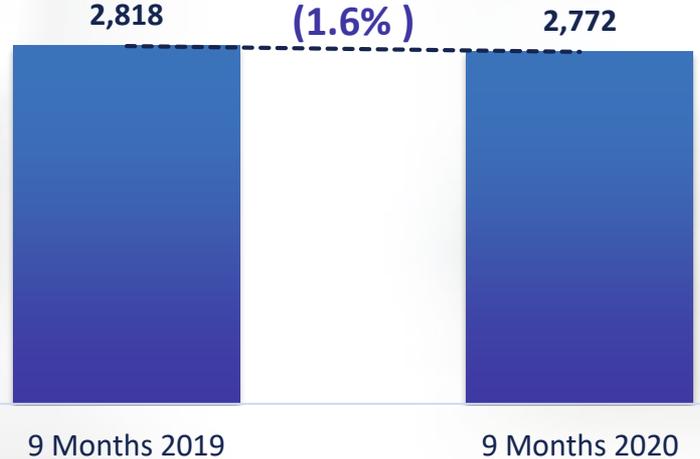
*Adjusted net profit includes the one-time write-off of a tax asset in Bezeq International of NIS 28 million

Bezeq Group – Revenues and Adjusted EBITDA | NIS Million

Revenues (9 Months)

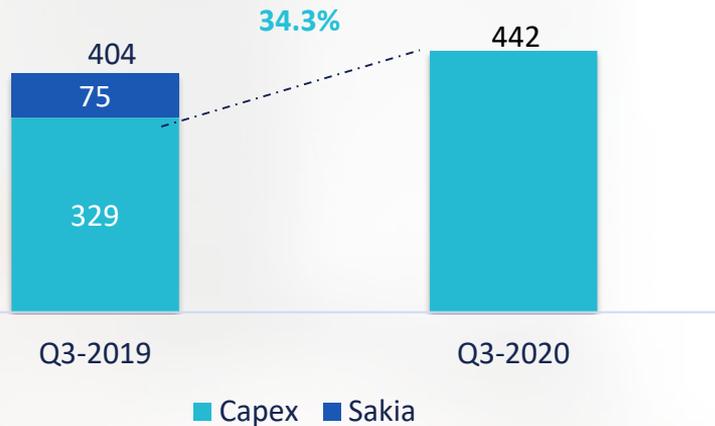


Adjusted EBITDA (9 Months)



Bezeq Group - Gross CAPEX and Free Cash Flow | NIS million

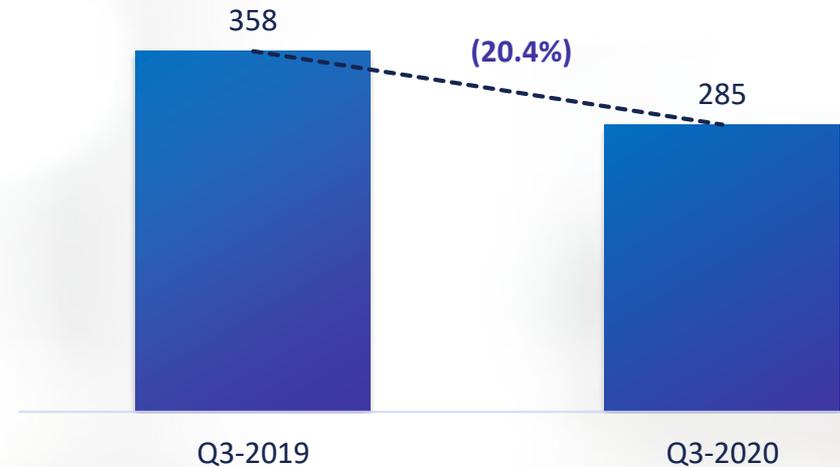
Gross Capex



▶ 34.3% y-o-y decrease

Refund of Betterment Levy in Q3-19 in connection with sale of "Sakia", increased capex in BE router and customer premises equipment as well as 5G deployment

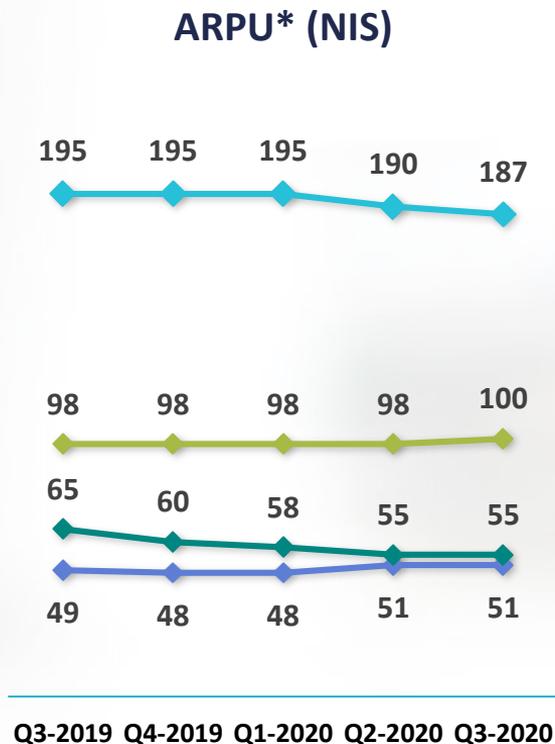
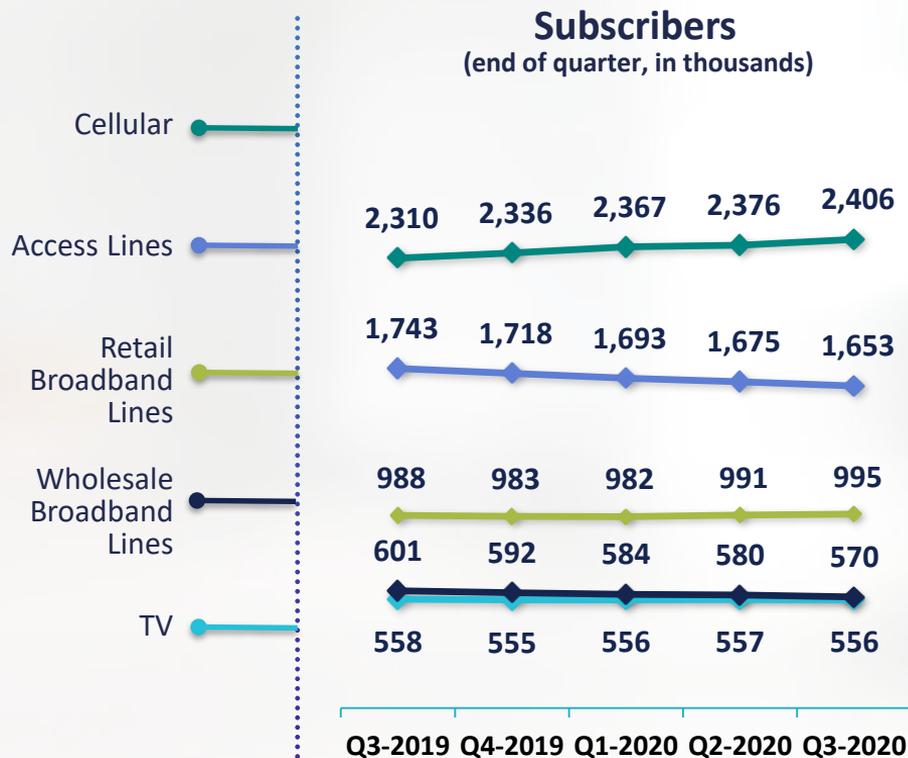
Free Cash Flow



▶ 20.4% y-o-y decrease

Refund of Betterment Levy in Q3-19 in connection with sale of "Sakia" complex

Bezeq Group - KPIs



* In Q1 2020, yes updated its ARPU definition so that ARPU does not include revenue from content sales to external broadcasters. As a result, ARPU data for the previous periods was adjusted retroactively.

Bezeq Group - Financial Debt | NIS million



▶ Continued **decrease in net debt**

- ▶ Decrease of NIS 869 million y-o-y

▶ Continued **improvement in liquidity ratio**

- ▶ **Net debt/EBITDA ratio** decreased to 2.2 from 2.4 in Q3 19

▶ **Debt ratings:**

Rating Agency	Rating	Outlook
S&P Global Maalot	iIAA-	Stable
Midroog	Aa3.il	Stable



Bezeq Fixed Line



Bezeq Fixed-Line - Broadband Internet Services

Revenues from Broadband Internet Services (NIS million)



Bezeq Retail Broadband Lines (Thousands)

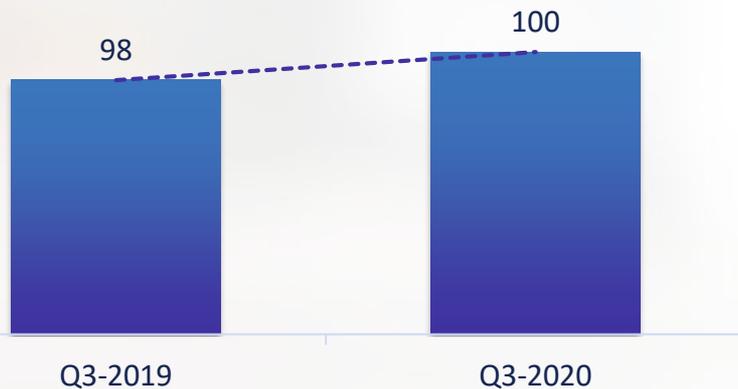


- ▶ Revenues from **broadband Internet services** grew **3.8% y-o-y**
- ▶ Continued **growth in broadband retail lines** for the second consecutive quarter
- ▶ Accelerated **sales of equipment** (BE router, Bspot, Be Mesh) contributed to the **increase in ARPU** (NIS 100 versus NIS 98 in Q3-19)

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

ARPU increase due to further penetration into customer premises as well as value-added services

Retail ARPU



Bezeq Fixed-Line – Progress in Regulatory Issues

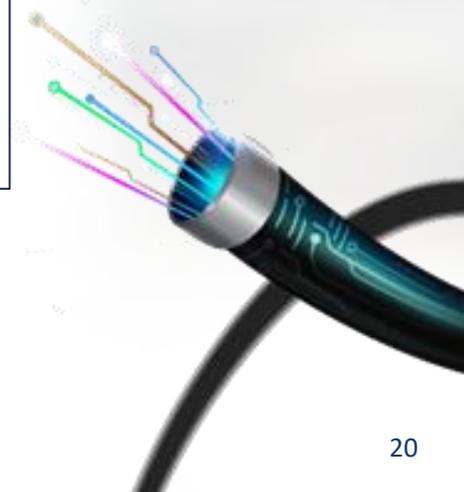
- ▶ **Government of Israel approval for nationwide deployment of advanced communications infrastructure in accordance with the final recommendations of the inter-ministerial team**
 - ▶ In the coming weeks, we will begin our aggressive deployment of fiber with hundreds of teams operating simultaneously throughout the country

Dudu Mizrahi, Bezeq CEO: “Bezeq’s advanced fiber optics will sweep through the country from Metula to Eilat, in the center and in the periphery, across the lengths and depths of the land”

Globes (Oct 27,2020)

Gil Sharon, Bezeq Chairman: “We plan to deploy fiber optics to one million households in Israel within a year”

Twitter, Gad Peretz (Oct 27, 2020)



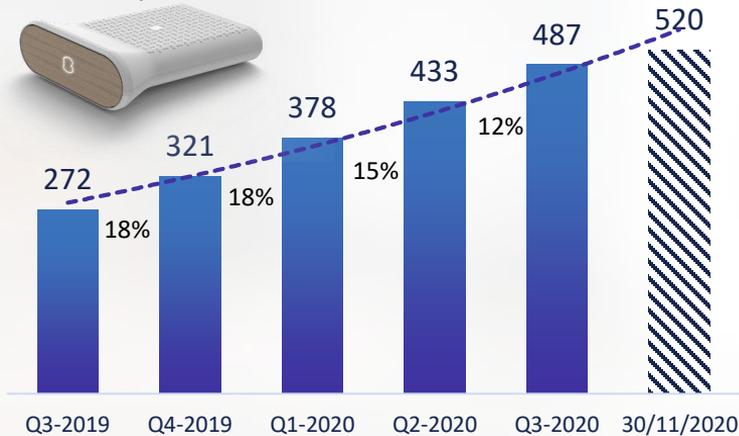
- ▶ Publication of a hearing to amend Bezeq’s license as of January 1, 2022, to enable the provision of a unified Internet service (including ISP service)

Bezeq Fixed-Line - Full WiFi Differentiation

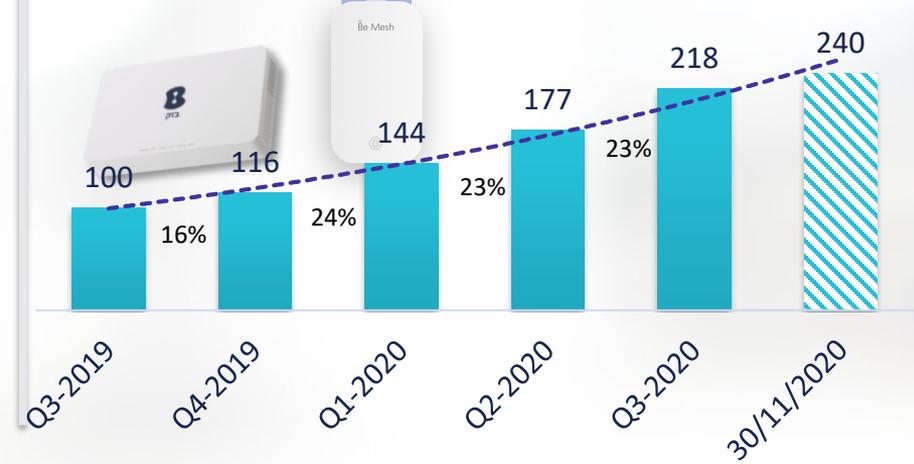
with High Quality Broadband Internet at Home

Improved broadband experience and customer retention through BE router and Bspot/Be Mesh services

Customers with BE router
(in thousands)



Customers with BSPOT and MESH
(in thousands)



~52% of the Company's retail customers choose to connect via the BE router

Bezeq Fixed-Line - Telephony Services

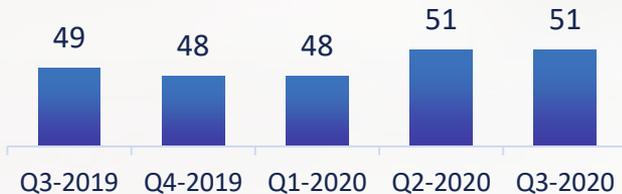
Telephony Revenues

(NIS millions)



Telephony ARPL

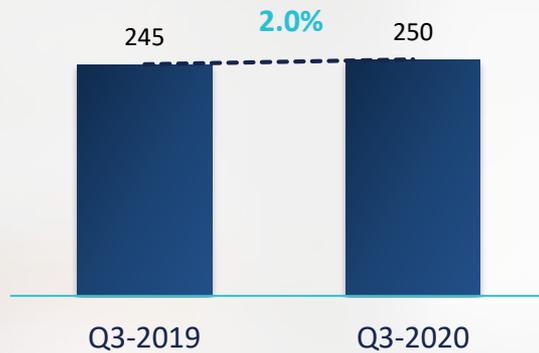
(NIS)



- ▶ **Significant increase in traffic** influenced by COVID-19
 - › Outgoing minutes increased 15% y-o-y
 - › Incoming minutes increased 24% y-o-y
- ▶ **ARPL in Q3 20 grew** to NIS 51 (from NIS 49 in Q3 19)
- ▶ Moderate decrease of 1.9% in revenues from telephony services

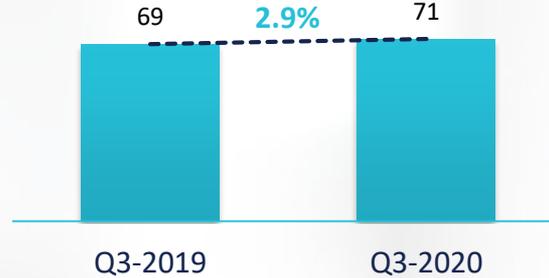
Bezeq Fixed-Line - Revenues from Transmission and Data Communications, Cloud & Digital Services and Other | NIS million

Transmission & Data



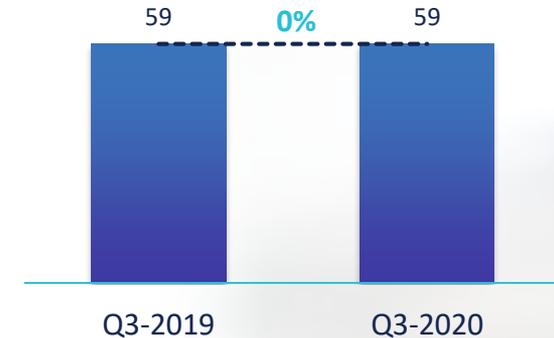
- ▶ **2.0% y-o-y increase**
Increase in revenues from transmission services for ISPs

Cloud & Digital Services



- ▶ **2.9% y-o-y increase**
Increase in revenues from virtual exchanges and cloud services for businesses

Other Revenues



- ▶ **Stable Other Revenues**

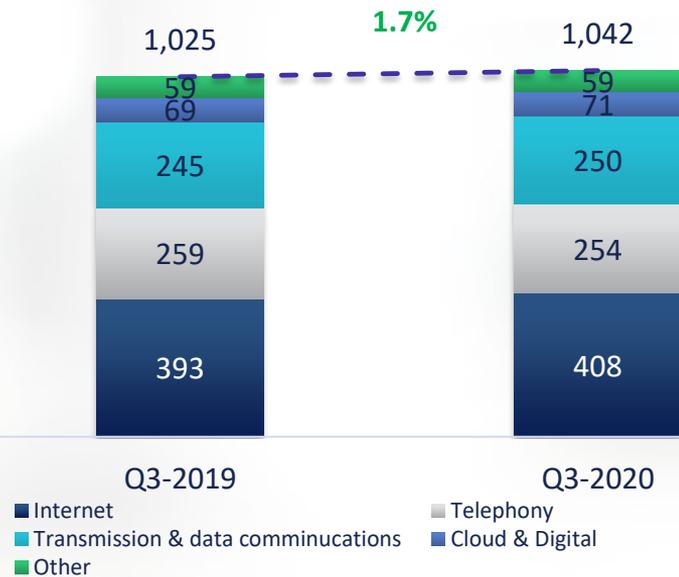
Bezeq Fixed-Line – Key Financial Metrics | NIS million

Increase in total revenues for second consecutive quarter

Expenses



Revenues

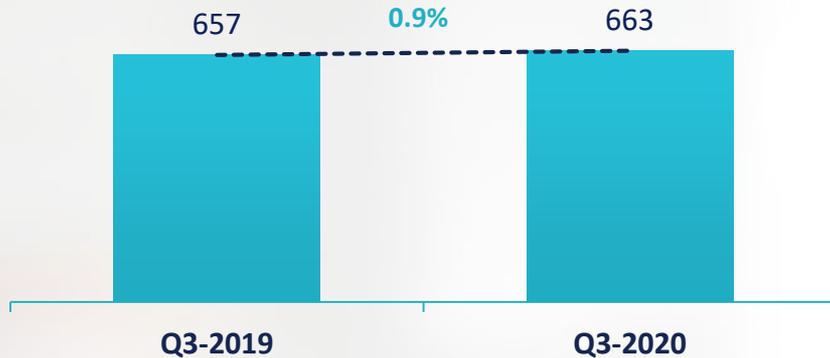


*Operating expenses in Q3 20 were impacted by an increase in interconnect fees to cellular operators and terminal equipment

Bezeq Fixed-Line - Adjusted EBITDA and Adjusted Net Profit * |

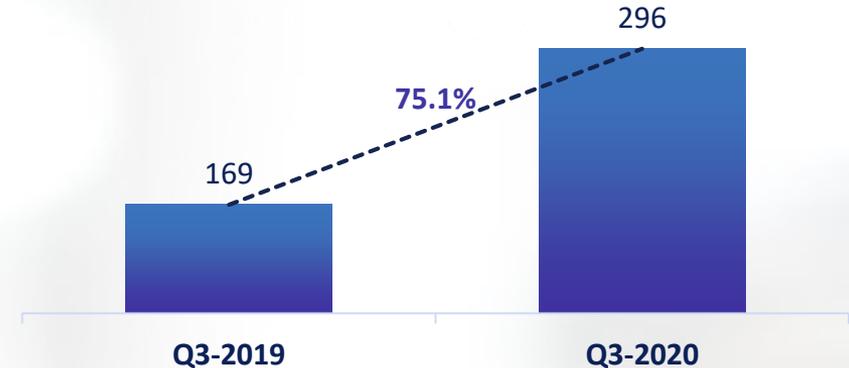
NIS Million

Adjusted EBITDA



▶ Adjusted EBITDA – 0.9% y-o-y increase

Adjusted Net Profit



▶ Adjusted Net Profit – 75.1% y-o-y increase
Mainly due to an increase in financing expenses resulting from the early repayment of debt in the corresponding quarter

*After adjusting for other operating expenses/income, net

Bezeq Fixed-Line - Revenues and Adjusted EBITDA | NIS Million

Revenues (9 Months)

3,088 0.5% 3,104



9 Months 2019

9 Months 2020

Adjusted EBITDA (9 Months)

1,982 0.4% 1,990



9 Months 2019

9 Months 2020

Bezeq Fixed-Line - Summary

- ▶ Growth in broadband Internet revenues driven by increase in subscribers and ARPU
- ▶ Tremendous success in sales of BE router and wifi enhancers
- ▶ Launch and nationwide deployment of fiber as well as the unified broadband Internet offering (including ISP) together with Bezeq's high quality of service will drive the continued growth and strengthening of Bezeq's position in the private broadband Internet market

Subsidiary Companies ("Project Alpha")





Telephone



Bezeq
International

yes.

Project Alpha – A Year and a Half in the Synergy Process



- ▶ At the end of 2018, three leading telecommunication companies in their fields were dealing with a market in crisis and declining revenues and profitability
- ▶ From there, Project Alpha set out in early 2019 to realize synergies and operational efficiencies between the companies
- ▶ Phase A relates to the years from 2019 to 2021
- ▶ Phase B is in the planning stages and will begin in 2022



Telephone



Bezeq
International

yes.

Project Alpha – Goals

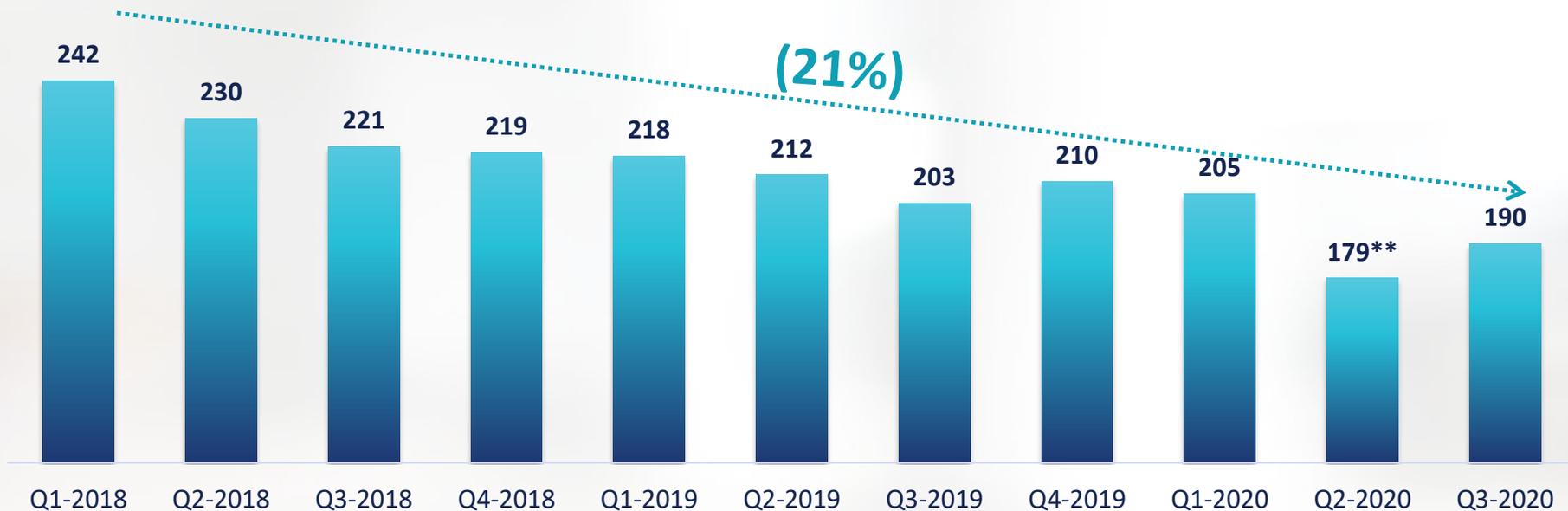
Efficiency and improved operational performance program

- ▶ One unified management team
- ▶ Streamlining in corporate headquarters
- ▶ Improved operational performance in all front line units
- ▶ Offering joint bundled service packages

- ▶ Appointed one unified management team to streamline the decision-making process and save tens of millions of shekels per year
- ▶ Reduced senior management positions by 40% (including those reporting to senior management)
- ▶ Lowered operating expenses through joint procurement
- ▶ Signed synergy and streamlining agreements with the three companies:
 - ▶ In the last year and a half, we reduced headcount by 900 employees and we expect an additional 400 employees to leave by the end of 2021 through non-recruitment and termination of employment
 - ▶ The plan is in accordance with labor union agreements in force until the end of 2021

Significant initiatives taken in the short term to enable companies to meet synergy goals

yes. Subsidiary Companies* - Decrease in Salary Expenses | NIS million

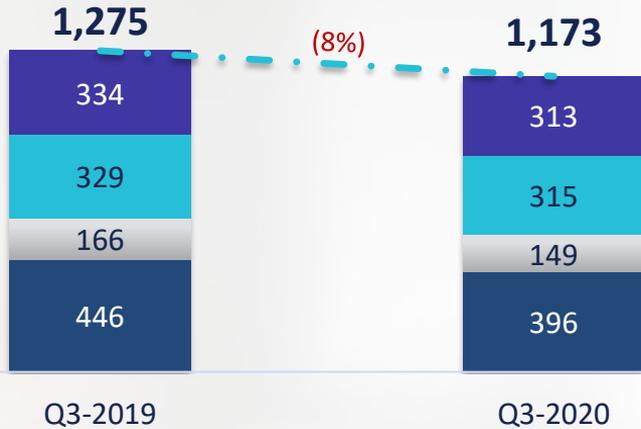


21% decrease in salary expenses since Q1 2018

*yes – includes pro forma numbers

**Q2 20 salary expenses include decrease of NIS 20 million due to impact of COVID-19

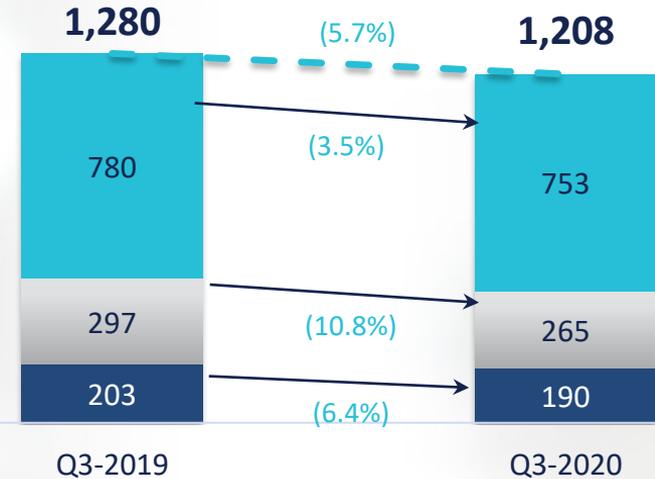
Revenues



■ Telephone - Services ■ Telephone - Equipment
■ Bezeq International ■ yes

- ▶ **Revenues** – Moderate decrease due to reduction in roaming revenues

Expenses**



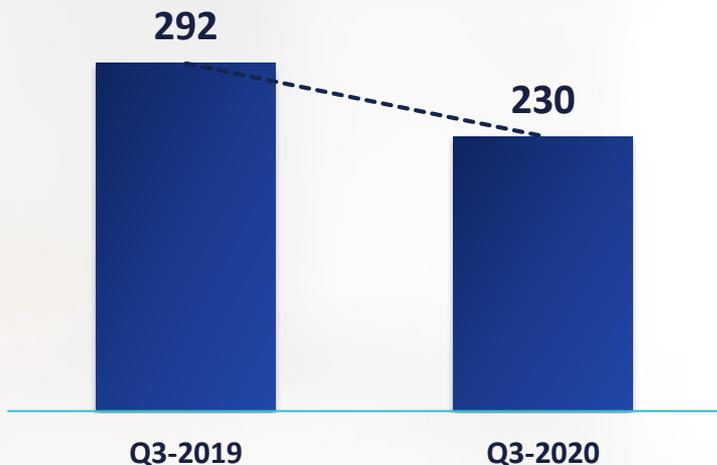
■ Salaries ■ Depreciation ■ Operating Expenses

- ▶ **Expenses** – Continued streamlining in operating and salary expenses

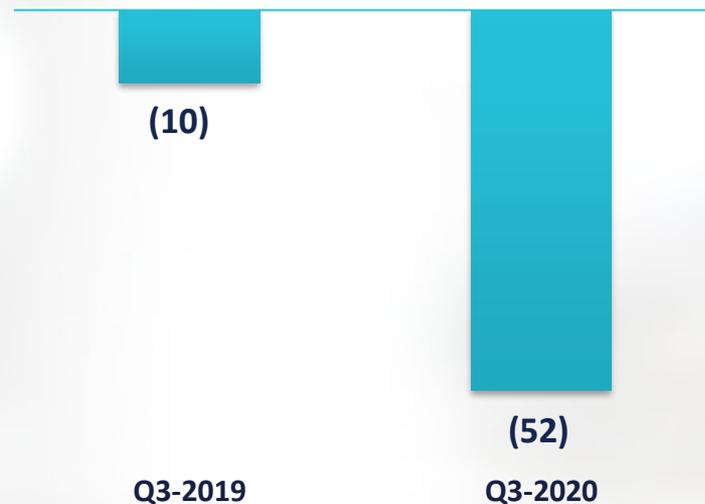
*yes – includes pro forma numbers **Excluding other operating expenses/income, net and impairment in assets
 Bezeq international – includes restatement in 2019-2020

Subsidiary Companies* – Financial Highlights | NIS million

Adjusted EBITDA



Adjusted Net Profit



- ▶ **Adjusted EBITDA and Adjusted Net Profit** – y-o-y decrease due to COVID-19 impact on roaming revenues partially offset by adoption of measures to adjust expenses as well as increased demand for other products of the companies

*yes – includes proforma numbers | Adjusted EBITDA and Adjusted Net Profit - after adjusting for impairment and other operating expenses/income, net
 Bezeq international – includes restatement in 2019-2020

*Adjusted net profit includes the one-time write-off of a tax asset in Bezeq International of NIS 28 million

Revenues (9 Months)

3,783 (5.7%) 3,569

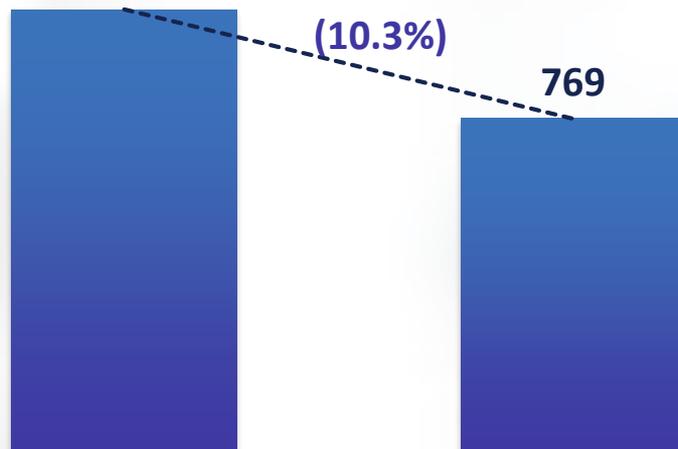


9 Months 2019

9 Months 2020

Adjusted EBITDA (9 Months)

857 (10.3%) 769



9 Months 2019

9 Months 2020

*yes – includes proforma numbers | Adjusted EBITDA and Adjusted Net Profit - after adjusting for impairment and other operating expenses/income, net

Bezeq international – includes restatement in 2019-2020



Telephone



Bezeq
International

yes.

Key Areas for Future Savings

- + Savings in real estate expenses due to reduction in space and moving corporate headquarters
- + Savings in transition from purchase of expensive set-top boxes to cheaper streamers
- + Savings in investments and costs of support through switching to one CRM system
- + Savings of millions of shekels through joint procurement

New Generations of Technologies in all Subsidiary Companies



yes. Marching on to Next Generation Technologies

**5G
Mobile**



**Internet
over Fiber
Optics**



**IP
Broadcasting**



New Generations of Technologies in all Subsidiary Company Operations



Pelephone – Key Operational & Financial Metrics

Pelephone

Adjusted EBITDA (NIS Million)



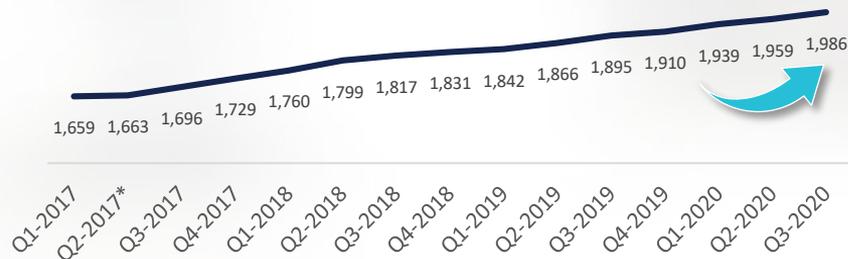
Revenues (NIS Million)



ARPU (NIS)



Postpaid Subscribers (thousands)



Growth in subscribers for five consecutive years led to slowdown in revenue erosion



Pelephone

Revenues and Adjusted EBITDA | NIS Million

Revenues (9 Months)



Adjusted EBITDA (9 Months)



✓ Record Speed

✓ Diverse Handsets and Plans

✓ Premium on 5G services

✓ Data communications and private broadband networks for businesses and organizations

✓ Wide coverage, outside and inside the house

○ Pelephone is the only company that has won frequencies that are for its exclusive use, which will give a competitive advantage to the Pelephone network



yes. yes – Key Operational & Financial Metrics

Adjusted EBITDA (NIS Million)



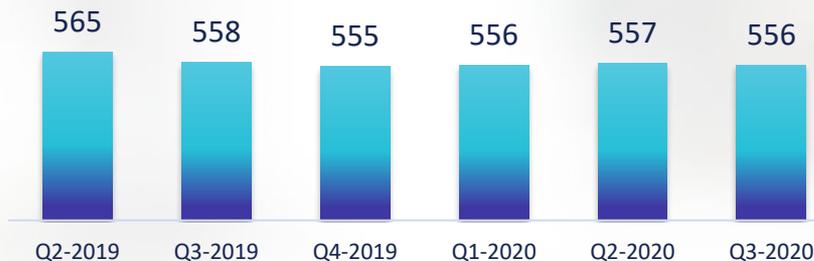
Revenues (NIS Million)



ARPU (NIS)



Subscribers (thousands)



*yes – includes pro forma numbers

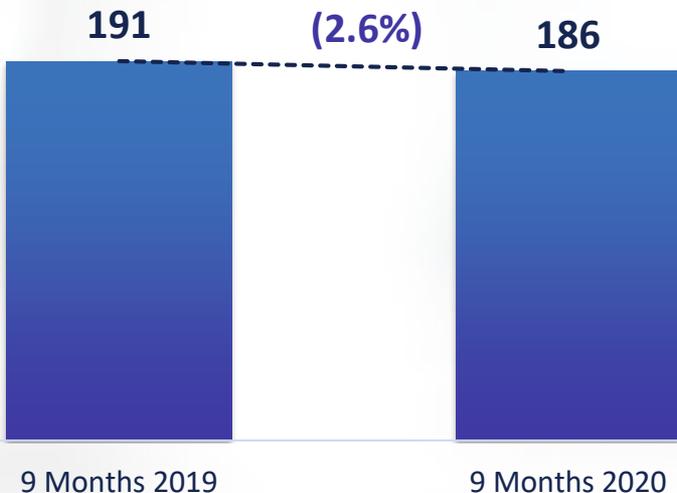
Slowdown in subscriber churn due to increased demand from yes+ and STINGTV

yes. Revenues and Adjusted EBITDA | NIS Million

Revenues (9 Months)



Adjusted EBITDA (9 Months)



*yes – includes pro forma numbers



IP Migration – Enhanced Customer Experience **Plus** Cost Savings



Continued Progress in IP Migration

- ▶ IP subscribers – 20% of customers as of today
- ▶ Savings in transition from purchase of expensive set-top boxes to cheaper streamers (cost is one-fifth of satellite box)

- ▶ Advanced streaming service with the most robust content library in Israel
- ▶ yes+LIVE Launch of a groundbreaking technology for watching broadcasts truly live and without delay
- ▶ yes+. Available on Android as well as Apple TV
- ▶ Easy and convenient access to international apps alongside collaboration with Netflix, Google, Amazon and IMDB whose ratings are integrated into the interface

Adjusted EBITDA (NIS Million)



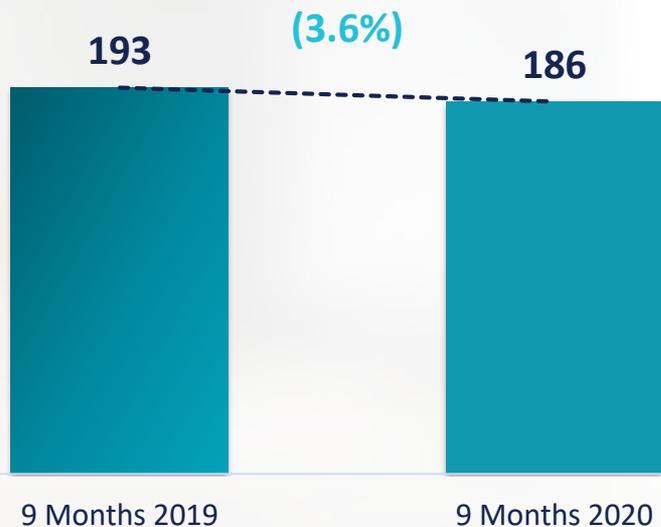
Operating Expenses (excluding other income/expenses) (NIS Million)



Revenues (NIS Million)



Revenues (9 Months)



Adjusted EBITDA (9 Months)





- ▶ The COVID-19 pandemic led to a significant increase in corporate demand for larger bandwidth based on Bezeq International's Internet infrastructure
- ▶ Increase in demand for data and voice by international telecommunication companies

Wide Range of Business Solutions

- ▶ Bezeq International has a wide range of data centers in Israel
- ▶ Significant growth in expansion of Microsoft cloud licensing packages
- ▶ Sharp rise in demand for advanced telephony solutions including remote connections to the workplace
- ▶ Winning significant tenders in government, industry and high-tech sectors



8 בוק ביזנאסי
BUSINESS

גם בימים אלו, בוק ביזנאסי אחכם. נשקב חמצן, נשחח העניק לנו **חודש ראשון חינם**. בהצטרפת לחדר ממוקם השרוירים לוסק, על מנת שחולל להשקיע תלול את העסק נרדוק. עם השרוירים הנרשמים הנונים ביותר

לפרטים התקשרו +9914
או השליחו פרטים

OFFICE 365 התמורה הליכול 365 אופיס התמורה לוסק שלום חרונ מחודש ראשון חינם לפרטים והצטרפות	מסלולי אינטרנט לטסקים בוק לבוק ממוקם מסלולי השרוירים התמורה לוסק שלום חרונ מחודש ראשון חינם לפרטים והצטרפות
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מאחלים בריאות וחזרה מהירה לשגרה

Bezeq International is a significant player in a growing market



Thank you



For more information please visit

ir.bezeq.co.il