

BEZEQ

Q2 2019 INVESTOR PRESENTATION

August 29, 2019



Bezeq

Forward-Looking Information and Statement

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Bezeq - Largest Telecom Group in Israel (Q2 2019)



Q2 19 Revenues of
NIS 2.2 billion



Q2 19 Adjusted EBITDA of
NIS 921 million



1.8 million fixed
access lines



2.2 million
cellular
subscribers



Ratings: Aa2.il, AA-.il



565,000 Pay-TV
customers



1.6 million
broadband lines



Bezeq

Bezeq Group Strategy

The Bezeq Group is continuing to implement its comprehensive strategic plan that includes significant steps towards streamlining and improving business performance. The program addresses the challenges faced by the Group and the future needs that are emerging in the telecommunications market environment, taking into consideration the complex regulatory limitations imposed on the Company

- ▶ Business oriented examination - lines, focus, and models of the Group companies
- ▶ Focus on streamlining, improving performance and profitability
- ▶ Significant decisions on all core issues of the Group for coming years – migration from satellite to IP-based broadcasting platform; deployment of 5G; investment in ultra-fast Internet infrastructure
- ▶ Maintaining Bezeq as a strong and financially sound company

Working on all of the above while taking a "360 degree view" of all stakeholders and ensuring transparency and corporate governance

Bezeq Fixed-Line

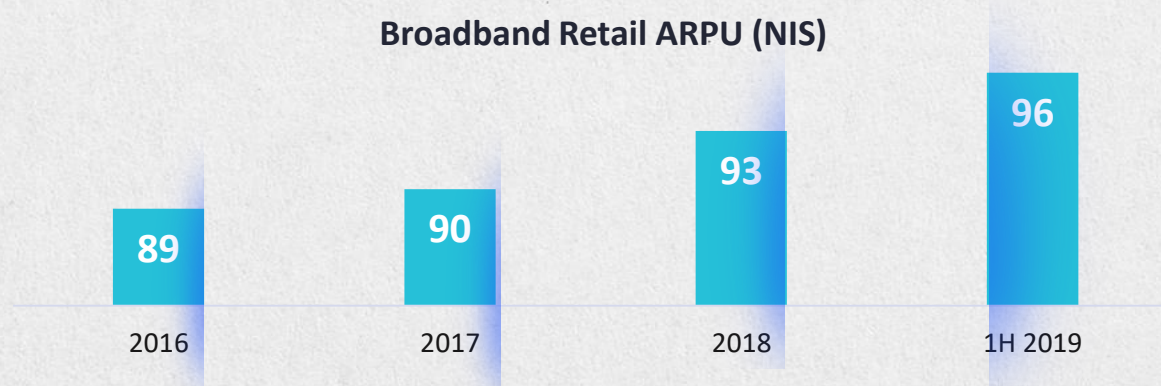


Bezeq

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
 - ▶ **BE router** - Since its launch in April 2018, more than 215 thousand customers have upgraded to the BE router (about 21% of total Bezeq broadband retail lines)
 - ▶ **BE and Bspot** services significantly reduce churn rate
- ▶ Launching of products which improve Internet deployment at home alongside value added services such as antivirus, network support, smart homes, etc



Bezeq Fixed-Line - Leadership 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 - Marketing of Terminal Equipment

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

In Israel there is a significant market for terminal equipment. The smartphone market alone is estimated at more than 3 million handsets sold each year at annual sales of NIS 6-7 billion



Harnessing the power of the Bezeq brand and marketing strength is expected to significantly increase the overall revenue potential of this sector



Bezeq Fixed-Line - 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)

Q2 2019 employee streamlining already helped offset ongoing wage creep in the quarter

Retirement expenses per employee 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

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 174 million in Q2 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 property in the amount of hundreds of millions of shekels in the coming years (Megapops, Rishon Letzion property, etc.)

Subsidiaries



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

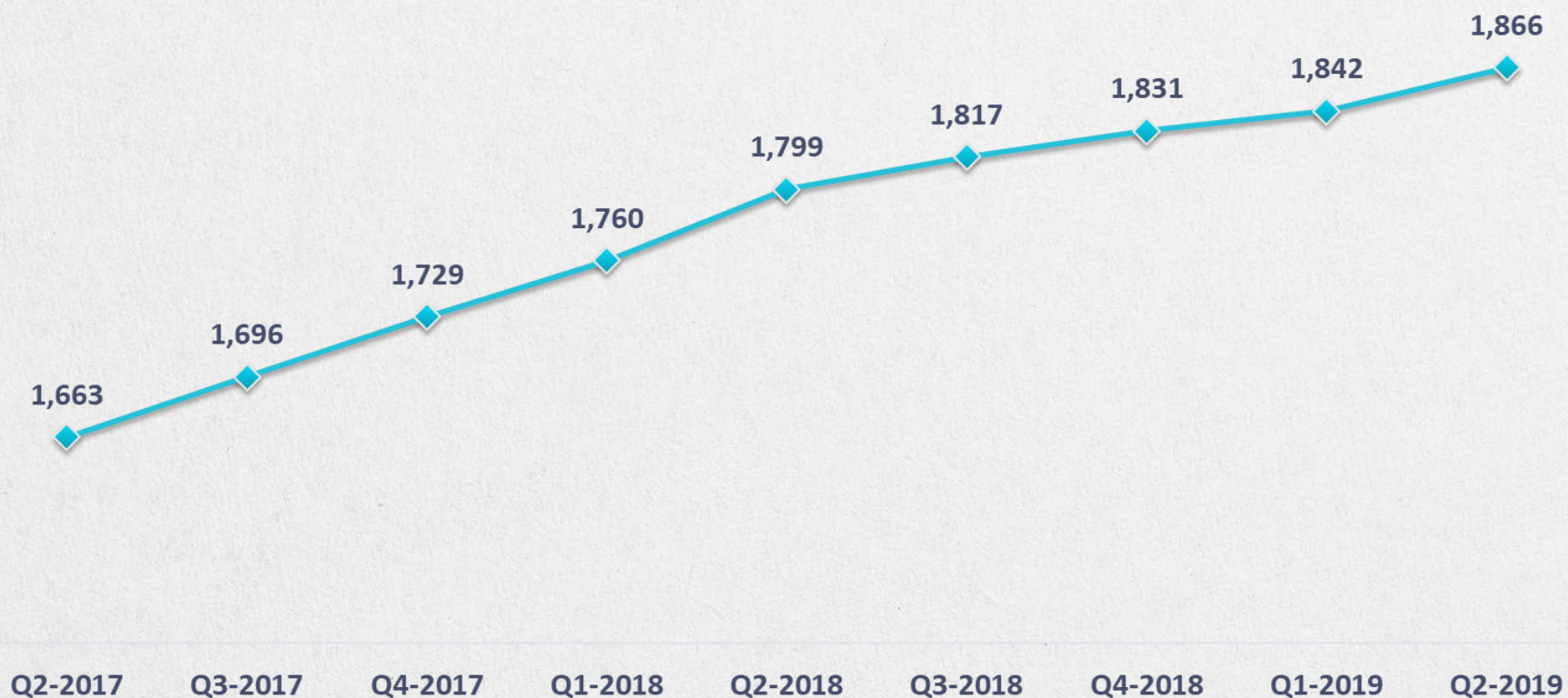
- Connected cars, PTT, IOT, Big Data, Cyber, Cloud, ESIM
- Winner of leading IOT projects in Israel

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

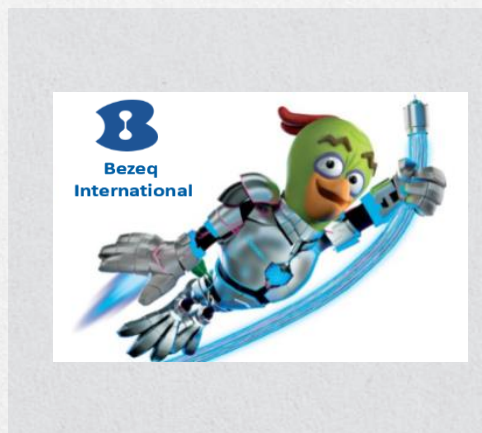
*After adjusting for the disconnection and write off of CDMA subscribers in Q2-16 (101k) and Q2-17 (13k)

Competition in Cellular Market

- ✓ The Israeli cellular market has 6 MNOs and additional MVNOs
- ✓ Highly competitive market
- ✓ Competition is mainly focused on pricing
- ✓ The competitive dynamic and lack of recovery expected in the short-term resulted in Pelephone updating its financial forecasts

Bezeq International - Wide Range of Services

- ✓ 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

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

Leading Content:

Original, diverse and high quality;
Top class international content



Quality viewing experience

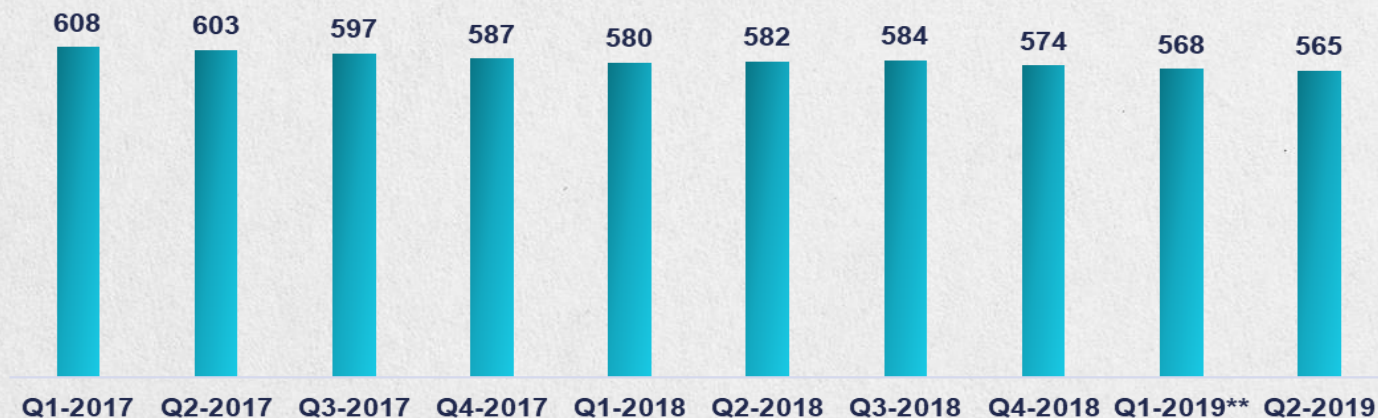


Brand with the highest customer satisfaction



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

Subscribers (in thousands)



*According to the Globes index of 2018

**Includes a retroactive adjustment of 7,000 subscribers due to a change in the definition of a business subscriber

yes.

Transition to IP Broadcasting to Enhance Viewing Experience and Reduce Costs

yes will gradually migrate 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 - flexible operating system for the customer

Migration process to begin before the end of 2019

Key Processes - Synergies and Streamlining

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 companies 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

The advertisement features three circular icons on the right side: a TV, a Wi-Fi signal, and a telephone handset, representing the triple play services.

Maximizing Synergies in Subsidiaries – Employees and Labor Relations

yes – Synergies and streamlining agreement for 2019-2021

Enables retirement of 325 employees as well as the non-recruitment of additional employees over the agreement period

Streamlining procedures were implemented in 2019 in accordance with the agreement

Bezeq International – Collective agreement for 2019-2021

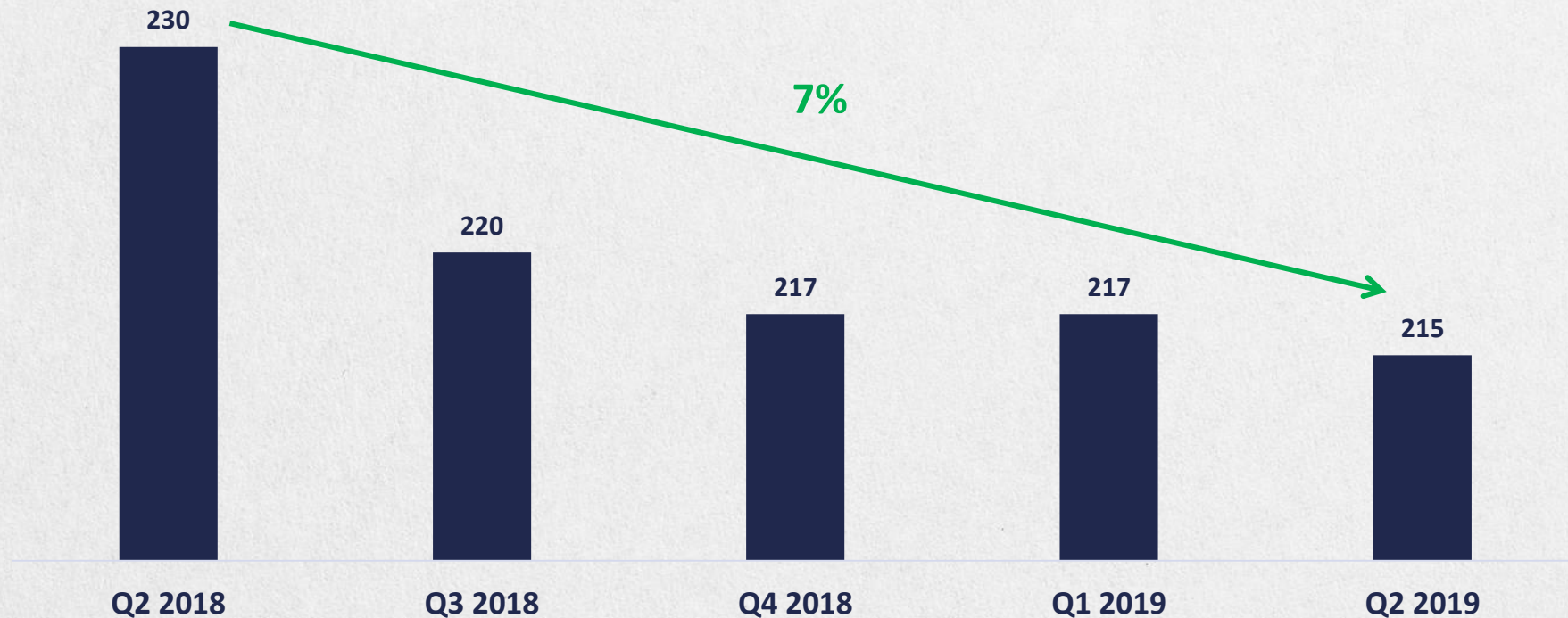
Enables retirement of 325 employees as well as the non-recruitment of additional employees over the agreement period.

Implementation of the agreement is in process

Pelephone

Ongoing negotiations with labor union and implementing processes to reduce the number of employees by closing non profitable activities

Subsidiary companies – Decrease in Salary Expenses (NIS m)



21

7% y-o-y decrease in salary expenses in Q2 2019

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
- ✓ RFP published for unified CRM system for subsidiary companies

Maximizing Synergies in Subsidiaries – Processes in the Pipeline

Plan

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

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

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

Streamline salaries and other operating expenses through improved processes and joint purchasing

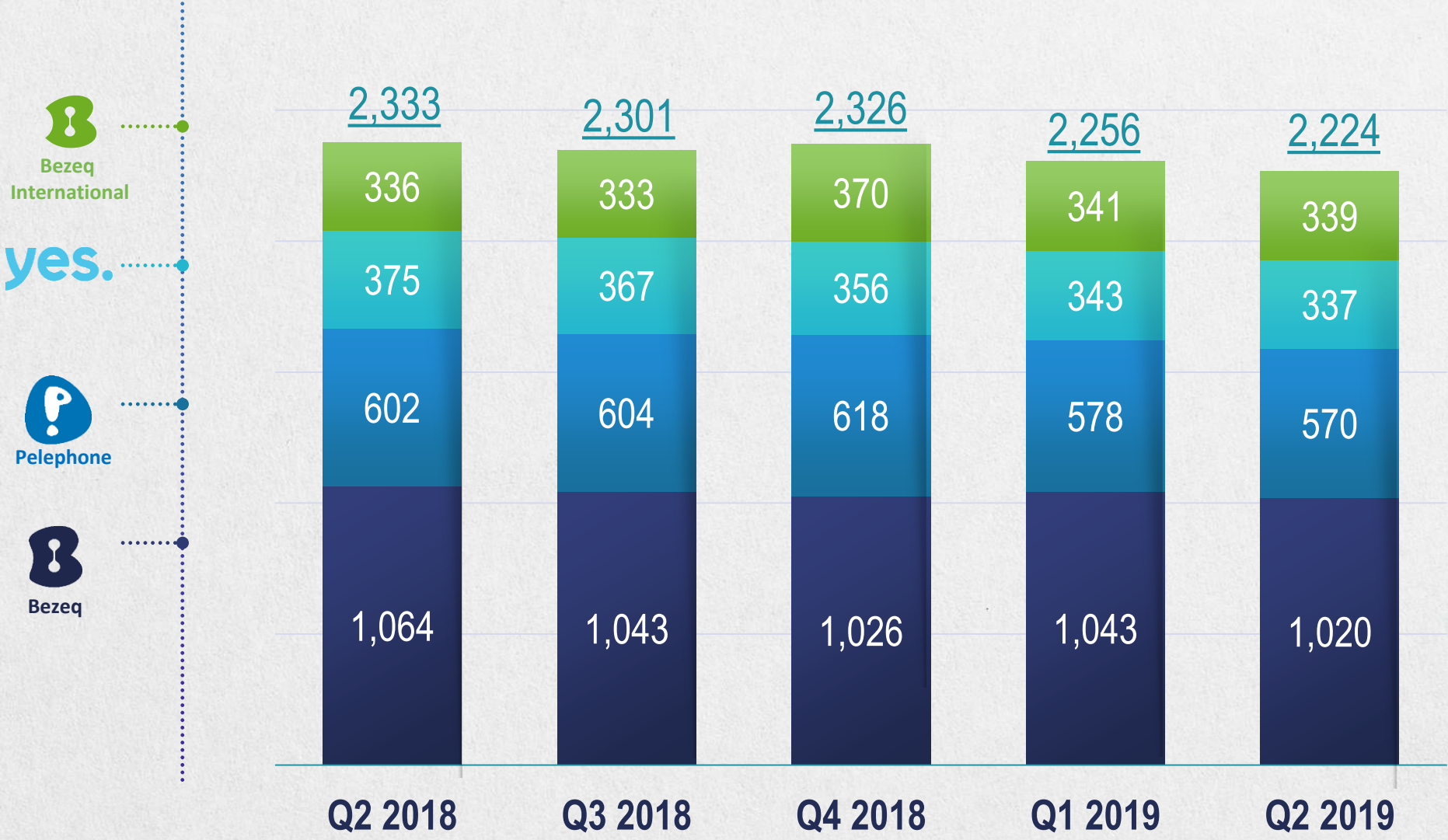
Q2 2019 Financial Results

Extraordinary Items in Q2 2019 Financial Results

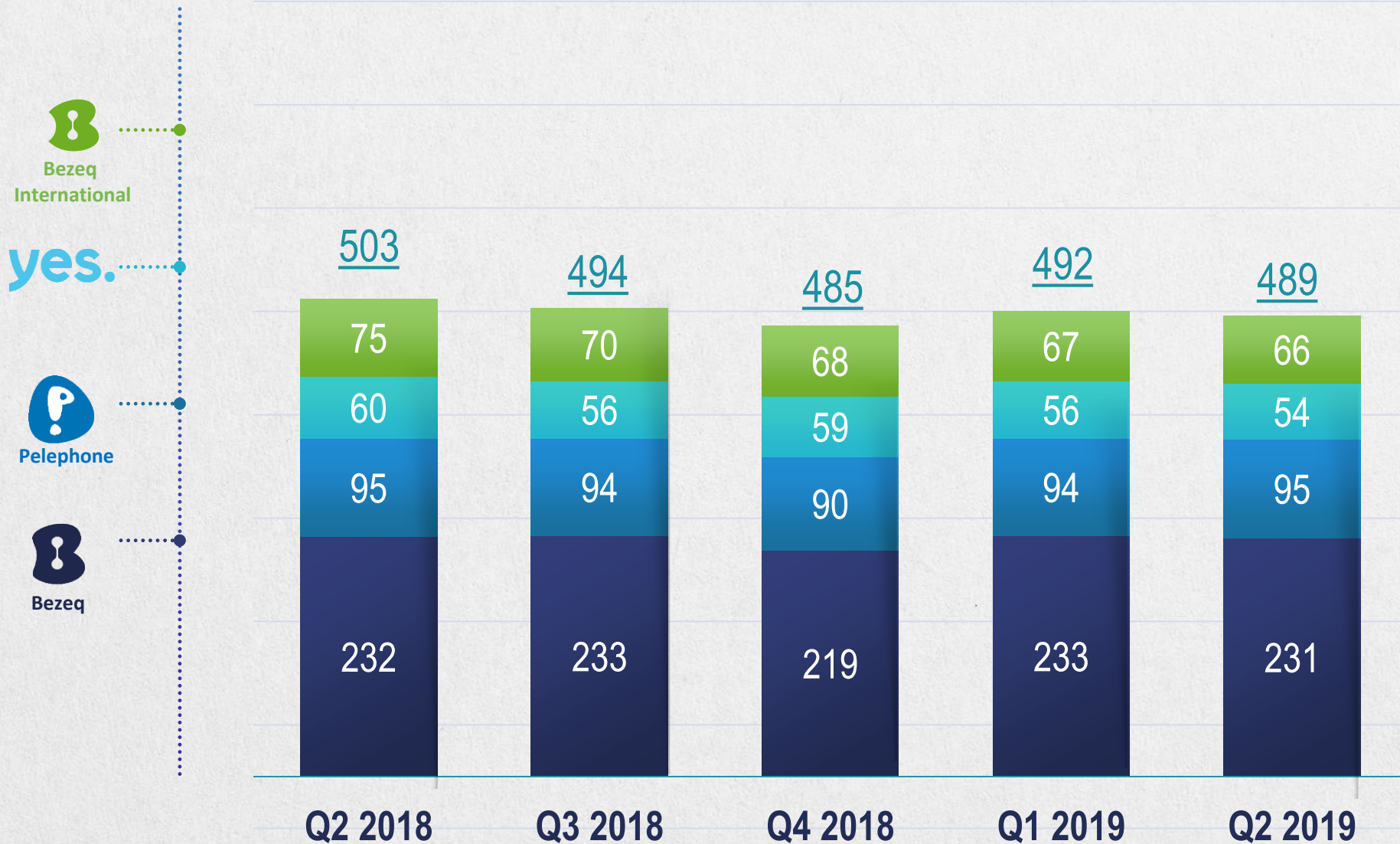
The financial results in the second quarter of 2019 were impacted by three extraordinary items

- ✓ Write-off of the balance of the tax asset in respect of losses from yes of NIS 1.166 billion
- ✓ Impairment loss in Pelephone assets of NIS 951 million
- ✓ Capital gains of NIS 403 million for the sale of the “Sakia” complex

Bezeq Group – Revenues | (NIS millions)



Bezeq Group – Salaries | (NIS millions)



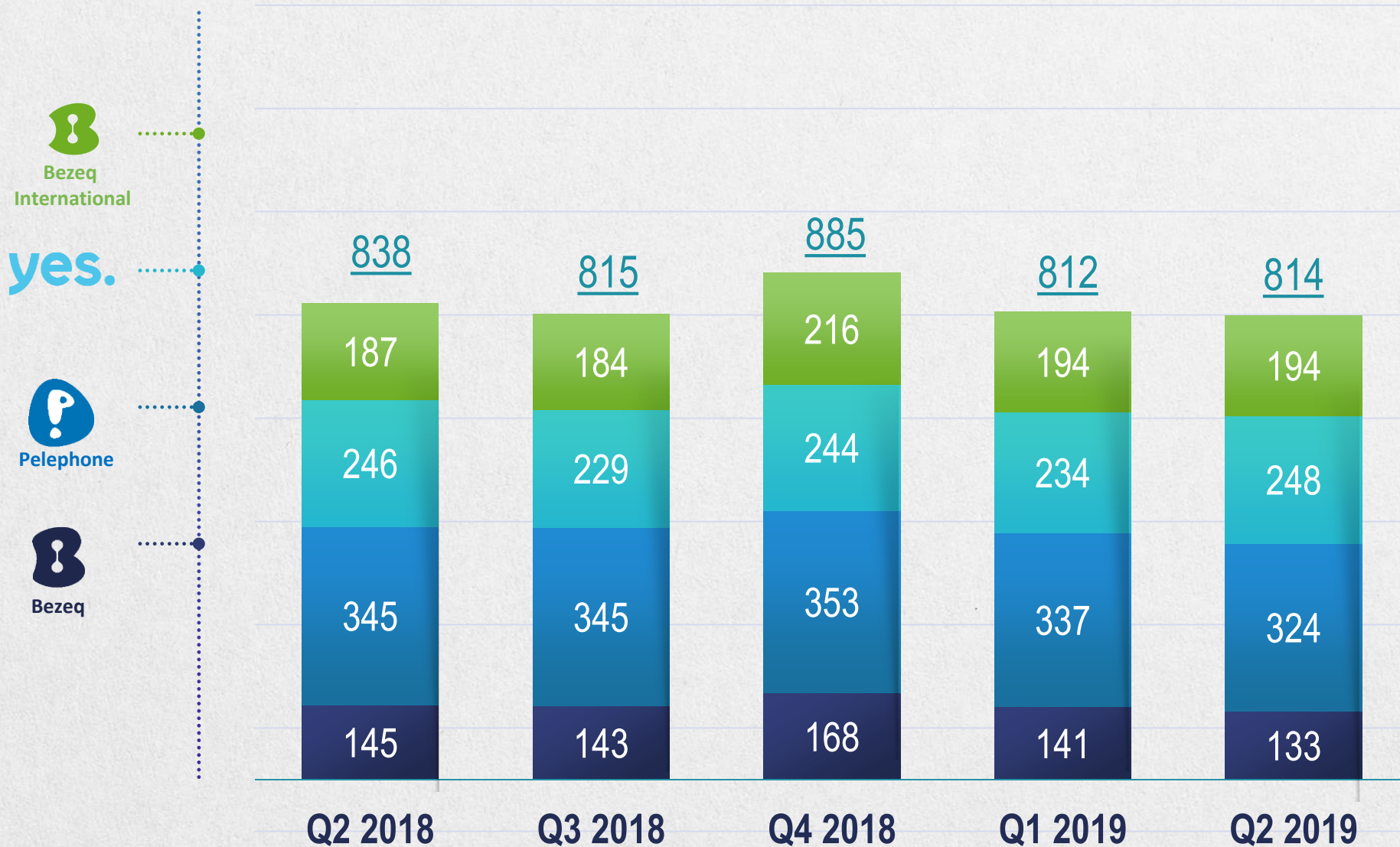

Bezeq
International



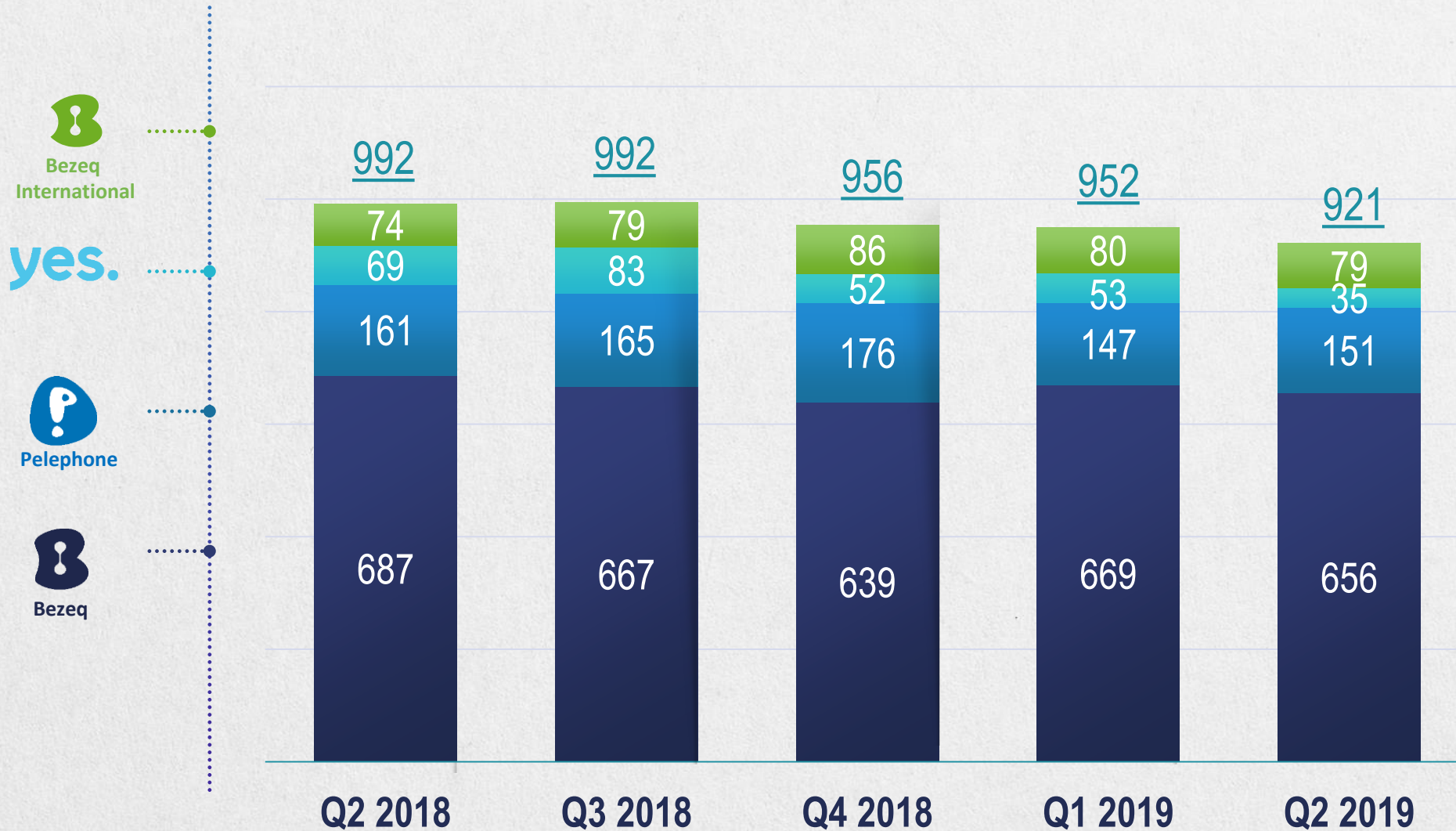

Telephone


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

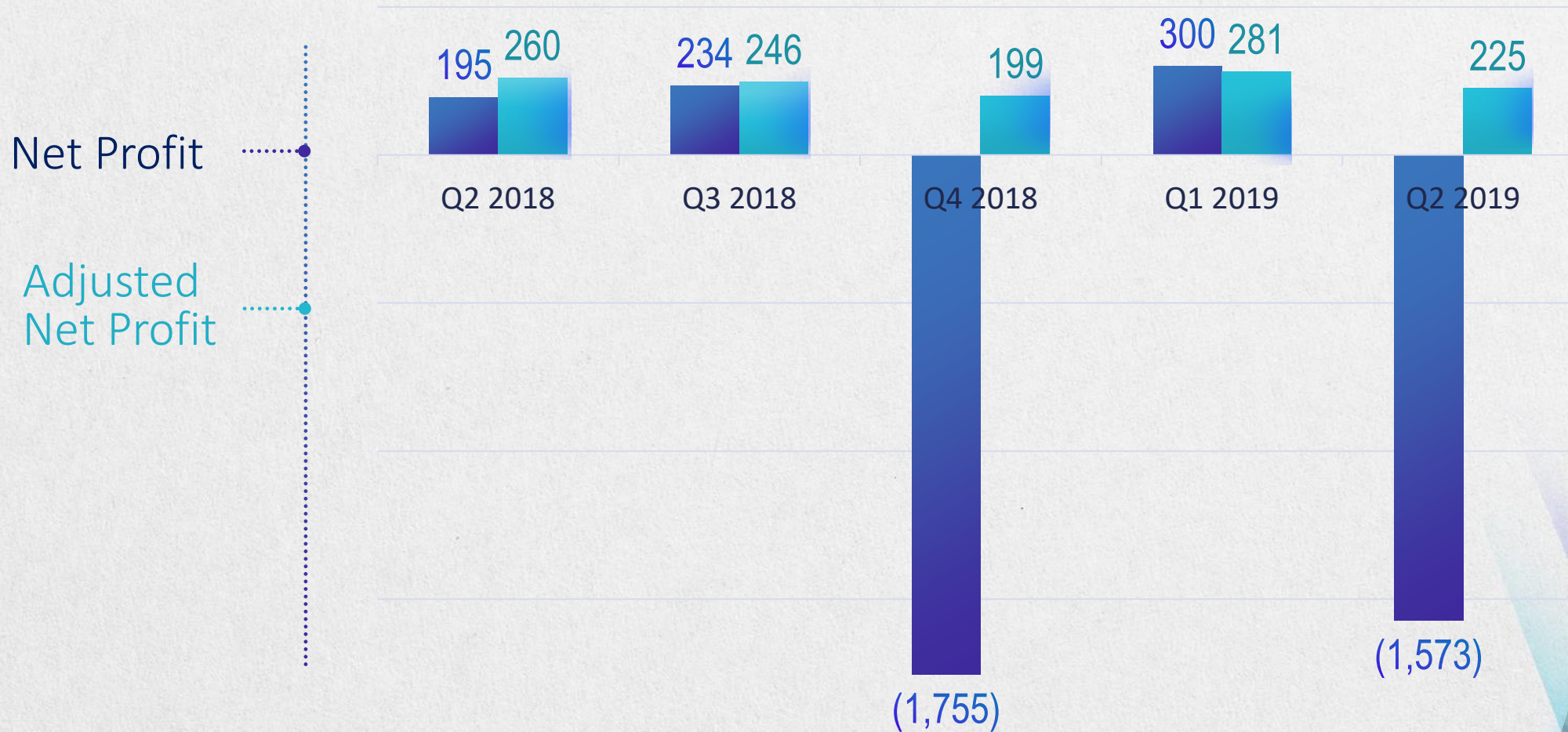


Bezeq Group - ADJUSTED EBITDA* | (NIS millions)



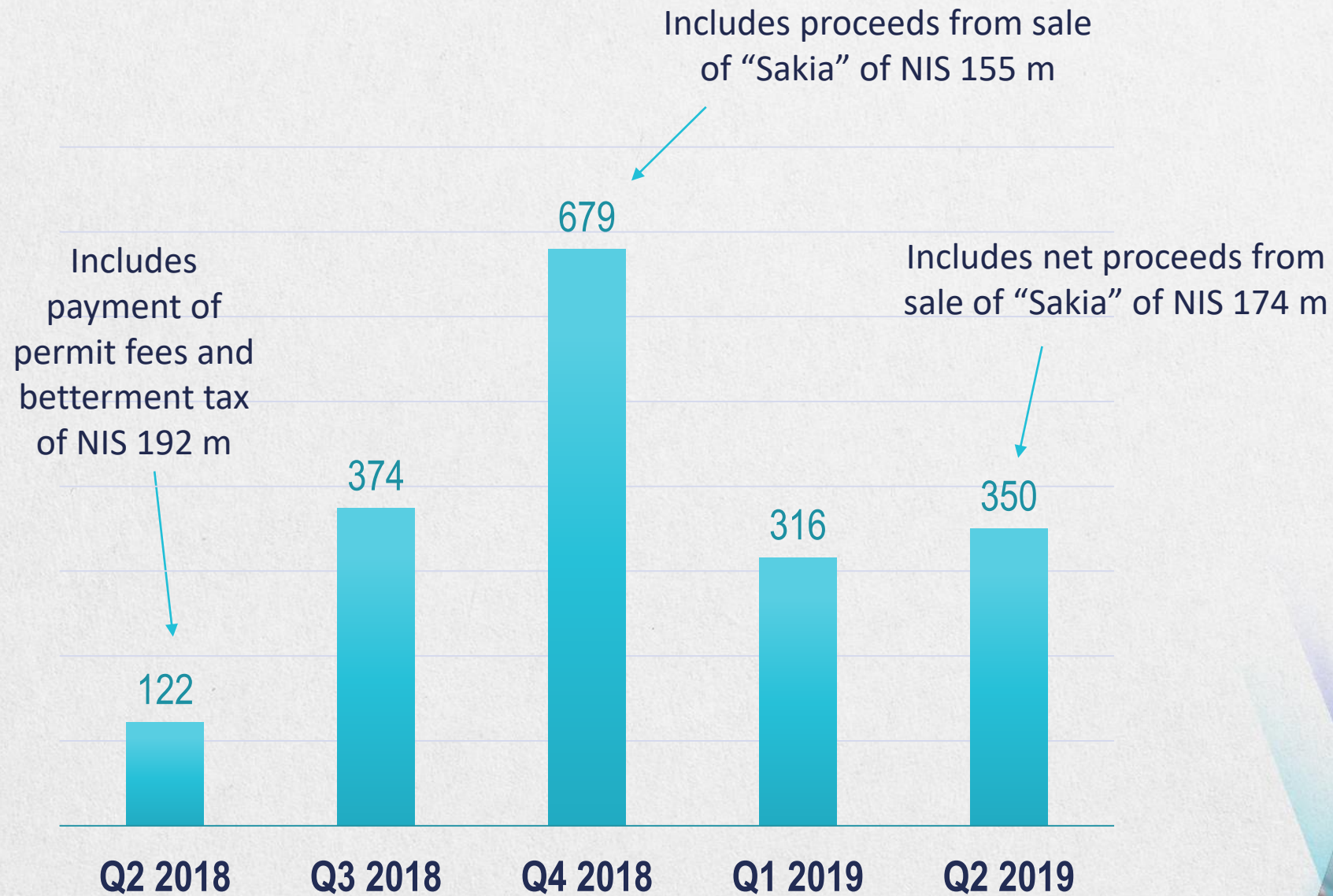
*EBITDA adjusted for other operating expenses/income, net and one-time losses from impairment of assets

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



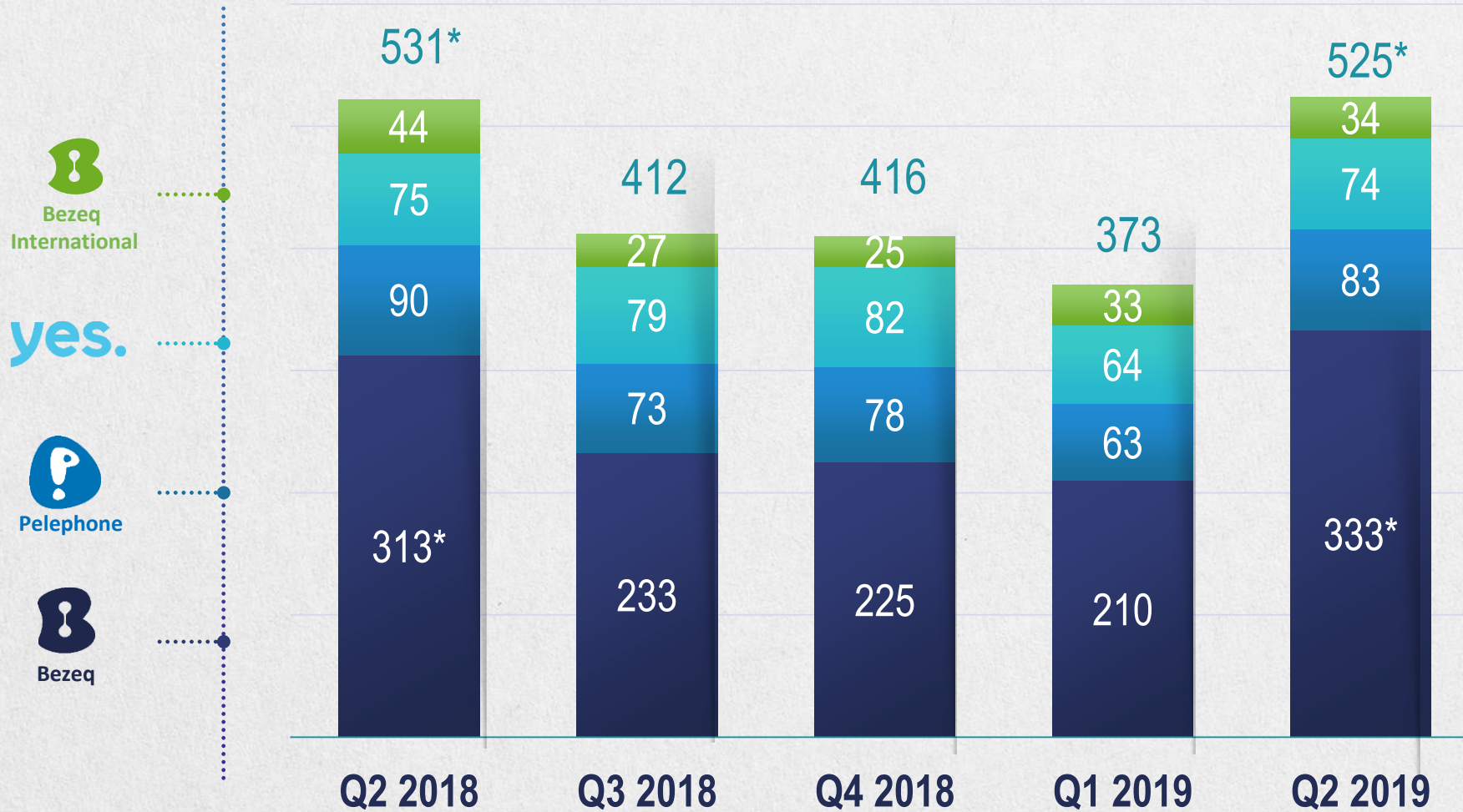
*Adjusted for other expenses/income, net and one-time losses from impairment of assets

Bezeq Group - Free Cash Flow | (NIS millions)



Bezeq Group - CAPEX | (NIS millions)

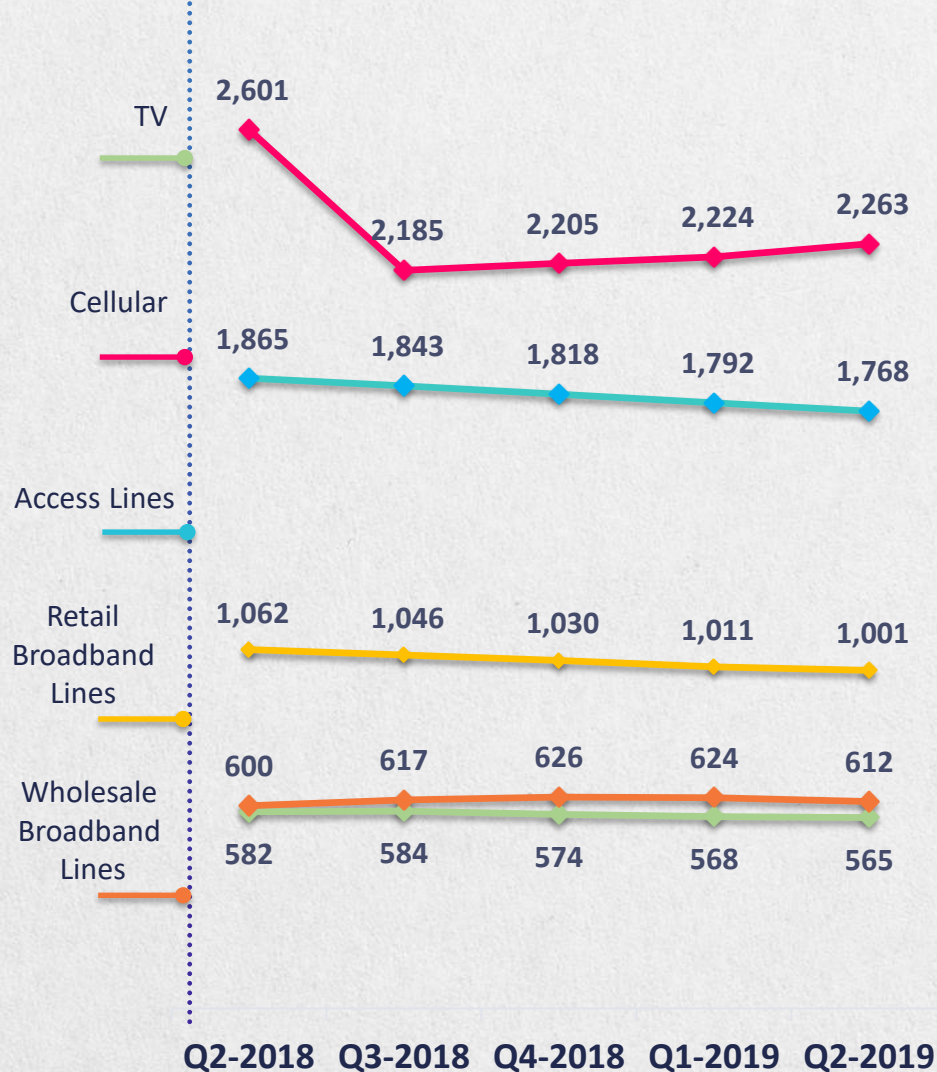
Continued investments will maintain the future leadership and operational efficiency of the Bezeq Group



*Includes payment of NIS 149 million for betterment levy in Q2 2019 and payment of NIS 112 million for permit fees in Q2 2018 in connection with the "Sakia" transaction

Bezeq Group - KPIs

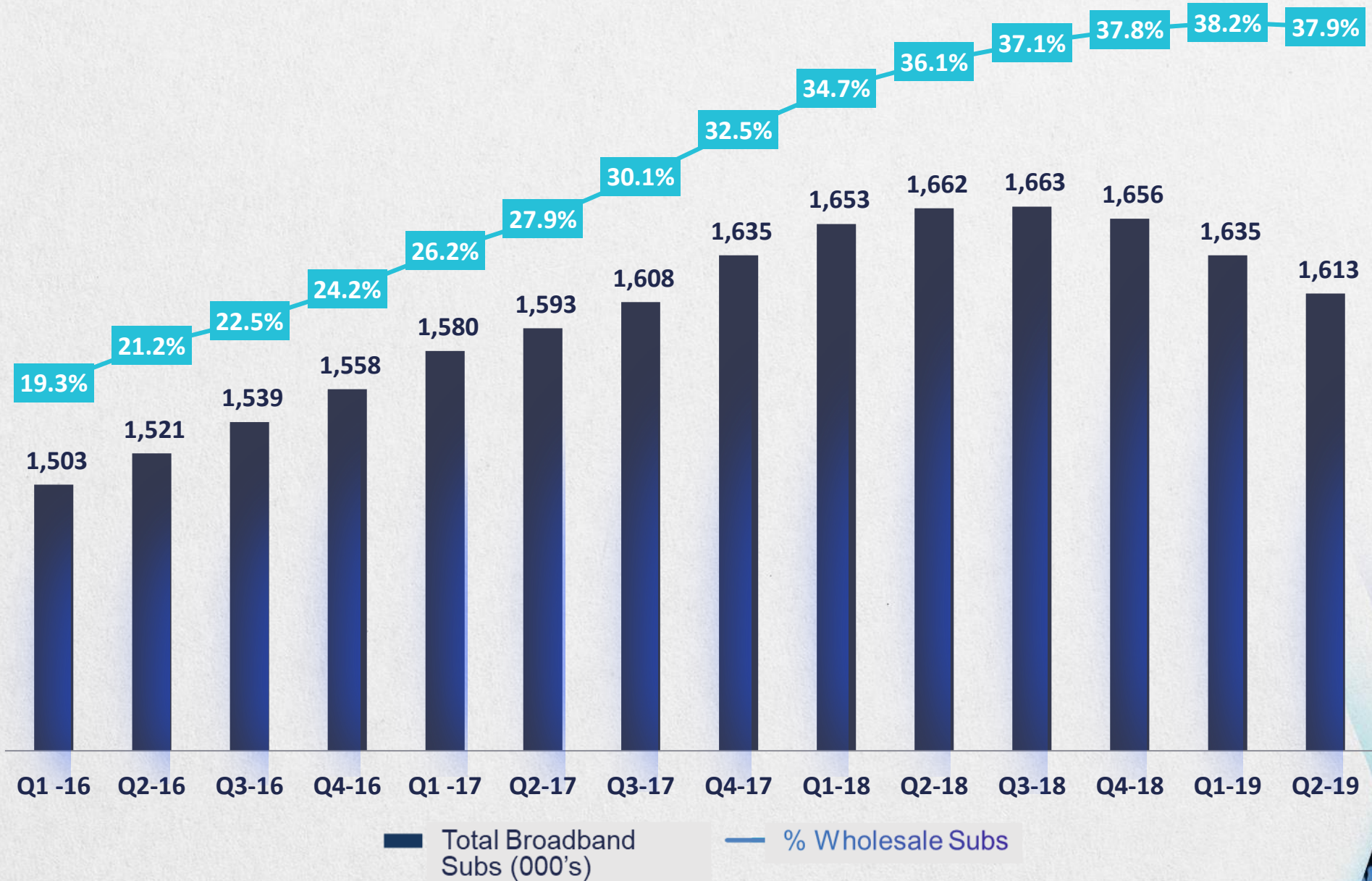
Subscribers (end of quarter, in thousands)



ARPU (NIS per month)

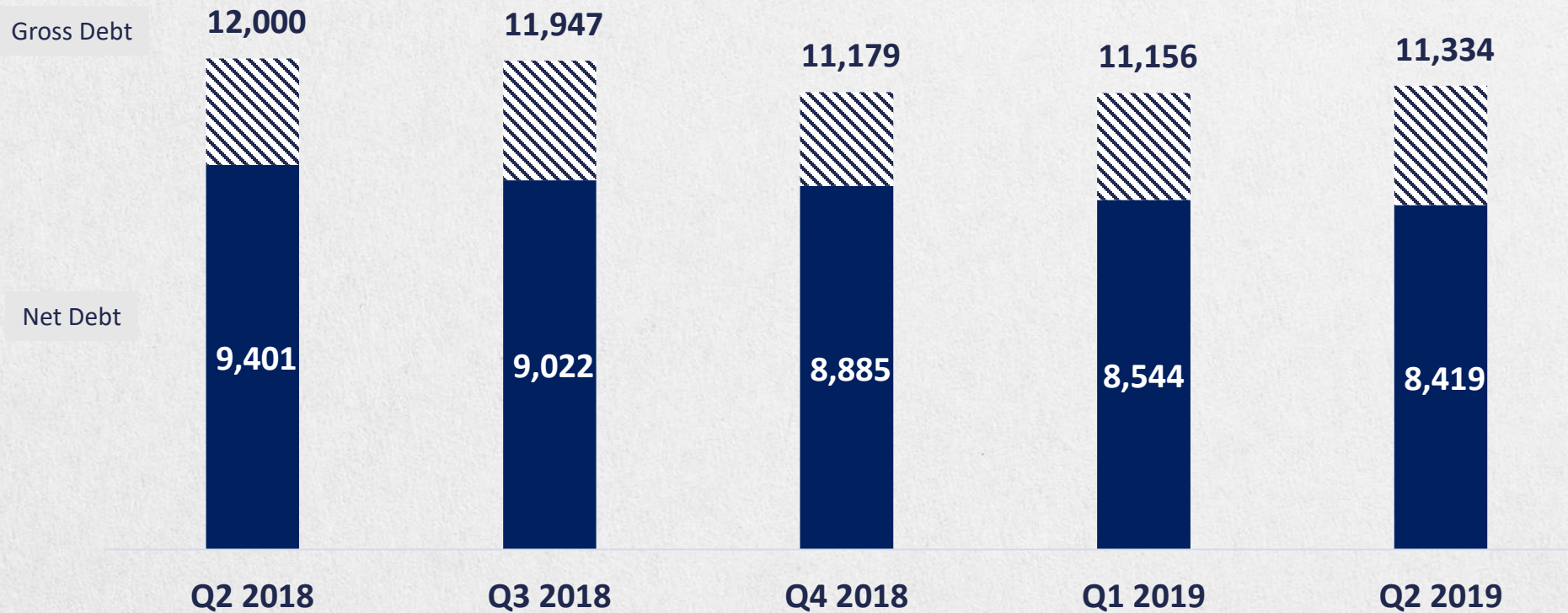


Broadband Internet Trends | Retail and Wholesale



Bezeq Group – Net Debt

Debt continuing to decrease over time



Financial Debt

▶ Bezeq's responsible and prudent management of all financial aspects of the Company will solidify its financial strength and provide flexibility with its existing debt

▶ **Principles of financial debt management:**

- I. Seek to maintain prudent debt coverage ratios and AA credit rating range

- II. Continue to adapt the Company's debt structure to its needs, *inter alia*, through extension of maturities (in 2019 the average duration of debt increased from 3.5 to 3.9) with the raising of long-term debt and repayment of short-term debt

- III. In 2019, the Company raised NIS 1.39 billion and made early repayments of debt of NIS 438 million

- IV. Operate with high cash balances

Bezeq Group - 2019 Updated Guidance

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, the Bezeq Group is updating its Outlook for 2019, as originally published in the Company's periodic report as of December 31, 2018 ("Original Outlook") as follows:

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 Updated 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 of NIS 380 million for the early retirement of employees in Bezeq Fixed-Line, Telephone, Bezeq International and yes. It is noted that NIS 360 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 2018 regarding the impairment of assets in the subsidiary companies.

Thank You

For more information please visit
ir.bezeq.co.il