



BEZEQ GROUP REPORTS THIRD QUARTER 2020 FINANCIAL RESULTS

Holon, Israel – November 30, 2020 – Bezeq – The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), Israel's leading telecommunications provider, today announced its financial results for the three months ended September 30, 2020. Details regarding the investor conference call and webcast to be held today are included later in this press release.

Bezeq Group (consolidated)	<u>Q3 2020</u>	<u>Q3 2019</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Revenues	2,178	2,247	(3.1%)
Operating profit	189	440	(57.0%)
EBITDA	653	921	(29.1%)
EBITDA margin	30.0%	41.0%	
Net profit	26	177	(85.3%)
Diluted EPS (NIS)	0.01	0.06	(83.3%)
Cash flow from operating activities	830	787	5.5%
Payments for investments	442	329	34.3%
Free cash flow ¹	285	358	(20.4%)
Net debt/Adjusted EBITDA ²	2.2	2.4	

¹ Free cash flow is defined as cash flow from operating activities less net payments for investments and leases.

² Adjusted EBITDA in this ratio is EBITDA (trailing twelve months) excluding other operating income/expenses, one-time loss from impairment and the effect of the adoption of accounting standard IFRS 16.

Gil Sharon, Bezeq Chairman, stated, "In the third quarter, despite the COVID-19 pandemic, the Group maintained stable results while growing adjusted net profit and reducing net debt year-over-year by approximately NIS 870 million. In addition, the Company recently announced that in light of the improvement in results, it is updating its outlook so that the expected adjusted EBITDA will increase from NIS 3.5 billion to NIS 3.6 billion.

In Bezeq Fixed-Line, we posted an increase in revenues together with an increase in the broadband Internet and cloud and digital services segments. In the subsidiaries, we are continuing to streamline expenses, while growing mobile subscribers and achieving stability in the number of yes subscribers. The Group is now focused on two strategic initiatives for the coming years in the field of broadband infrastructures: the rapid nationwide deployment of Bezeq's fiber network and the establishment of a 5th generation network in Pelephone.

Commenting on the accounting issue at Bezeq International, Sharon said, "Bezeq International's management identified discrepancies in the subsidiary's accounting report, which lasted several years. Since identifying the issue, Bezeq International acted with the assistance of external third-party



consultants and experts to locate and correct the errors, and to prepare revised financial statements. We take the failures discovered extremely seriously. The board has appointed an independent external auditor firm, Fahn Kanne, led by CPA Mickey Blumenthal, to investigate all the incidents and recommend the necessary course of actions to correct the failures and prevent them from happening in the future."

Bezeq Group Results (Consolidated)

Revenues in the third quarter of 2020 were NIS 2.18 billion, compared to NIS 2.25 billion in the same quarter of 2019, a decrease of 3.1%.

The decrease in revenues was due to lower revenues in Pelephone, Bezeq International and yes, partially offset by an increase in revenues in Bezeq Fixed-Line.

Salary expenses in the third quarter of 2020 were NIS 474 million, in-line with the same quarter of 2019.

Lower salary expenses in Pelephone, Bezeq International and yes were offset by an increase in Bezeq Online due to an increase in operations.

Operating expenses in the third quarter of 2020 were NIS 790 million, compared to NIS 813 million in the same quarter of 2019, a decrease of 2.8%.

The decrease in operating expenses was due to a reduction in expenses in yes, Pelephone and Bezeq International.

Other operating income, net in the third quarter of 2020 amounted to NIS 7 million, compared to expenses of NIS 39 million in the same quarter of 2019.

Other operating income was impacted by a provision for early retirement in Bezeq International of NIS 45 million in the corresponding quarter of 2019.

Depreciation, amortization and ongoing impairment expenses in the third quarter of 2020 were NIS 464 million, compared to NIS 481 million in the same quarter of 2019, a decrease of 3.5%.

The decrease in depreciation amortization and ongoing impairment expenses was due to a decrease in all key group segments.

Profitability metrics were primarily impacted by an impairment loss in Bezeq International assets of NIS 282 million.

Operating profit in the third quarter of 2020 amounted to NIS 189 million, compared to NIS 440 million in the same quarter of 2019, a decrease of 57.0%.

EBITDA in the third quarter of 2020 amounted to NIS 653 million (EBITDA margin of 30.0%), compared to NIS 921 million (EBITDA margin of 41.0%) in the same quarter of 2019, a decrease of 29.1%.



After adjusting for other operating income and impairment loss/gain in assets, **Adjusted EBITDA** in the third quarter of 2020 was NIS 914 million (Adjusted EBITDA margin of 42.0%) compared to NIS 960 million (Adjusted EBITDA margin of 42.7%) in the same quarter of 2019, a decrease of 4.8%.

Financing expenses in the third quarter of 2020 were NIS 80 million, compared to NIS 205 million in the same quarter of 2019, a decrease of 61.0%.

The decrease in financing expenses was due to lower financing expenses in Bezeq Fixed-Line primarily as a result of fees relating to the early repayment of debt in the corresponding quarter of 2019, a decrease in financing expenses relating to employee benefits as well as a decrease in interest expenses.

Net profit in the third quarter of 2020 amounted to NIS 26 million, compared to NIS 177 million in the same quarter of 2019, a decrease of 85.3%.

The decrease in net profit was primarily due to the aforementioned decrease in operating profit.

After adjusting for other operating income and impairment loss/gain in assets, **Adjusted net profit** in the third quarter of 2020 was NIS 289 million, compared to NIS 207 million in the same quarter of 2019, an increase of 39.6%.

The increase in adjusted net profit was primarily due to the aforementioned decrease in financing expenses.

Cash flow from operating activities in the third quarter of 2020 was NIS 830 million, compared to NIS 787 million in the same quarter of 2019, an increase of 5.5%.

The increase in cash flow from operating activities was primarily due to increases in Bezeq Fixed-line and yes.

Payments for investments in the third quarter of 2020 amounted to NIS 442 million, compared to NIS 329 million in the same quarter of 2019, an increase of 34.3%.

The increase in payments for investments was primarily due to an increase in investments in Bezeq Fixed-Line and Pelephone.

Free cash flow in the third quarter of 2020 was NIS 285 million, compared to NIS 358 million in the same quarter of 2019, a decrease of 20.4%.

The decrease in free cash flow was due to the aforementioned increase in investments.

Net financial debt of the Group was NIS 7.26 billion as of September 30, 2020 compared to NIS 8.13 billion as of September 30, 2019. As of September 30, 2020, the Group's net financial debt to Adjusted EBITDA ratio was 2.2, compared to 2.4 as of September 30, 2019.



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'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, among other things, 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.

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

Regarding the adjusted net profit and the adjusted EBITDA, attention is drawn to the impairment recorded in the Company's books 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.

* 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 3.69 billion and NIS 913 million, respectively.

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

Bezeq Fixed-Line Results

- Bezeq recently launched its fiber optic project and, at the same time, doubled broadband Internet speeds for hundreds of thousands of households in the current network
- Revenues in Q3 2020 increased 1.7% y-o-y and amounted to NIS 1.04 billion
- Broadband Internet revenues grew 3.8% y-o-y and reached NIS 408 million
- Retail broadband Internet lines grew for the second consecutive quarter to 995,000

Dudu Mizrahi, Bezeq CEO, commented, "We continued to post strong results, with growth in revenues and a significant increase in net profits. Retail broadband Internet subscribers continued to grow, despite increasing competition. Such growth is based on the Company's technology-driven infrastructure and high-quality service we offer our customers."

Mizrahi added, "We recently announced the launch of Bezeq's fiber optic project, and at the same time doubled the broadband speed for hundreds of thousands of households in the existing network. Last month, the town of Metula was the first town in Israel to be fully connected to fiber with many more localities to join as we accelerate the deployment. By the end of 2021, we expect our fiber network to reach about one million households in Israel. Our fiber-optic project is expected to have far-reaching effects on the Company and the entire Israeli economy, enabling millions of customers throughout the country to enjoy ultra-fast broadband Internet speeds and making the State of Israel a world leader in telecommunications infrastructures".

Revenues in the third quarter of 2020 were NIS 1.04 billion, compared to NIS 1.03 billion in the same quarter of 2019, an increase of 1.7%.

The increase in revenues was due to an increase in most revenue items, partially offset by a moderate decrease in revenues from telephony services.

Revenues from broadband Internet services in the third quarter of 2020 were NIS 408 million, compared to NIS 393 million in the same quarter of 2019, an increase of 3.8%.

The increase in revenues from broadband Internet services was due to an increase in the average revenue per retail subscriber, the update to wholesale broadband Internet tariffs as well as an increase in retail broadband Internet subscribers. The increase was partially offset by a decrease in wholesale Internet lines.

Revenues from telephony services in the third quarter of 2020 were NIS 254 million, compared to NIS 259 million in the same quarter of 2019, a decrease of 1.9%.

The decrease in revenues from telephony services was due to a reduction in the number of access lines, partially offset by an increase in the average revenue per line due to an increase in call revenue as a result of the COVID-19 pandemic.

Revenues from transmission and data communication services in the third quarter of 2020 were NIS 250 million, compared to NIS 245 million in the same quarter of 2019, an increase of 2.0%. The increase in revenues from transmission and data communication services was primarily due to an increase in revenues from transmission services for Internet Service Providers.

Revenues from cloud & digital services in the third quarter of 2020 were NIS 71 million, compared to NIS 69 million in the same quarter of 2019, an increase of 2.9%. The increase in revenues from cloud and digital services was primarily due to an increase in revenues from virtual exchanges and cloud services for businesses.

Revenues from other services in the third quarter of 2020 were NIS 59 million, in-line with the same quarter of 2019.

Operating expenses in the third quarter of 2020 were NIS 154 million, compared to NIS 144 million in the same quarter of 2019, an increase of 6.9%. The increase in operating expenses was primarily due to an increase in interconnect fees and payments to telecom operators due to an increase in traffic, an increase in the provision for doubtful debts and an increase in sub-contractor expenses. The increase was partially offset by a decrease in building maintenance expenses resulting from credits provided for municipal taxes as a result of the pandemic.

Salary expenses in the third quarter of 2020 were NIS 225 million, compared to NIS 224 million in the same quarter of 2019, an increase of 0.4%.

Other operating income in the third quarter of 2020 amounted to NIS 5 million, compared to NIS 8 million in the same quarter of 2019.

Depreciation expenses in the third quarter of 2020 were NIS 222 million, compared to NIS 225 million in the same quarter of 2019, a decrease of 1.3%.

Operating profit in the third quarter of 2020 amounted to NIS 446 million, compared to NIS 440 million in the same quarter of 2019, an increase of 1.4%. **EBITDA** in the third quarter of 2020 was NIS 668 million (EBITDA margin of 64.1%), compared to NIS 665 million (EBITDA margin of 64.9%) in the same quarter of 2019, an increase of 0.5%.

Financing expenses in the third quarter of 2020 were NIS 91 million, compared to NIS 207 million in the same quarter of 2019, a decrease of 56.0%. The decrease in financing expenses was primarily due to fees relating to the early repayment of debt in the corresponding quarter, a decrease in financing expenses for employee benefits and a decrease in interest expenses in the current quarter.

Net profit in the third quarter of 2020 amounted to NIS 300 million, compared to NIS 175 million in the same quarter of 2019, an increase of 71.4%. The increase in net profit was primarily due to the aforementioned decrease in financing expenses.



Cash flow from operating activities in the third quarter of 2020 amounted to NIS 561 million, compared to NIS 484 million in the same quarter of 2019, an increase of 15.9%.

The increase in cash flow from operating activities was primarily due to an increase in profitability as well as changes in working capital.

Payments for investments in the third quarter of 2020 were NIS 272 million, compared to NIS 145 million in the same quarter of 2019, an increase of 87.6%. The increase in investments was due to the refund of NIS 75 million for betterment levy paid in connection with the sale of the "Sakia" complex in the corresponding quarter of 2019 (recorded as an offset to investments). In addition, there was an increase in investments for the BE router and other customer premises equipment.

Free cash flow in the third quarter of 2020 was NIS 264 million, compared to NIS 328 million in the same quarter of 2019, a decrease of 19.5%.

The decrease in free cash flow was due to the aforementioned increase in payments for investments.

The number of **broadband Internet lines** (retail and wholesale) at the end of the third quarter of 2020 totaled 1.57 million, a decrease of 6,000 lines compared to the second quarter of 2020, and a decrease of 24,000 compared to the third quarter of 2019.

Retail broadband Internet lines grew for the second consecutive quarter and reached 995,000 at the end of the third quarter of 2020, a sequential increase of 4,000 lines. The number of **wholesale broadband Internet** lines amounted to 570,000 lines, representing a sequential decrease of 10,000 lines.

During the third quarter of 2020, **average broadband speeds** reached 71.6 Mbps, compared to 70.4 sequentially, and 66.2 Mbps in the third quarter of 2019, representing a year-over-year increase of 8.2%.

Average revenue per Internet subscriber (ARPU - retail) in the third quarter of 2020 was NIS 100, compared to NIS 98 sequentially and NIS 98 in the third quarter of 2019.

The number of **telephony access lines** totaled 1.653 million at the end of the third quarter of 2020, compared to 1.675 million sequentially and 1.743 million at the end of the third quarter of 2019.

Average revenue per line (ARPL) in the third quarter of 2020 totaled NIS 51, in-line sequentially, and NIS 49 in the third quarter of 2019.

Bezeq Fixed-Line - Financial data	<u>Q3 2020</u>	<u>Q3 2019</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Total revenues	1,042	1,025	1.7%
Broadband Internet revenues	408	393	3.8%
Telephony revenues	254	259	(1.9%)
Transmission and data revenues	250	245	2.0%
Cloud & digital services revenues	71	69	2.9%
Other revenues	59	59	0.0%
Operating profit	446	440	1.4%
EBITDA	668	665	0.5%
EBITDA margin	64.1%	64.9%	
Net profit ¹	300	175	71.4%
Cash flows from operating activities	561	484	15.9%
Payments for investments	272	145	87.6%
Free cash flow ²	264	328	(19.5%)

¹ Excluding share in profits/losses of equity-accounted investees.

² Free cash flow is defined as cash flow from operating activities less net payments for investments and leases.

Bezeq Fixed-Line - KPIs	<u>Q3 2020</u>	<u>Q2 2020</u>	<u>Q3 2019</u>
Active subscriber lines (end of period, in thousands) ¹	1,653	1,675	1,743
Average monthly revenue per line (NIS) ²	51	51	49
Outgoing minutes (millions)	1,019	1,079	888
Incoming minutes (millions)	1,367	1,293	1,099
Churn rate (%) ³	3.4%	2.7%	3.0%
Total broadband Internet lines (retail and wholesale, end of period, in thousands) ⁴	1,565	1,571	1,589
Retail broadband Internet lines (end of period, in thousands) ⁴	995	991	988
Wholesale broadband Internet lines (end of period, in thousands) ⁴	570	580	601
Average monthly revenue per broadband Internet subscriber (NIS) - Retail ⁵	100	98	98
Average broadband speed per subscriber (Mbps)	71.6	70.4	66.2

¹ Inactive subscribers are those whose lines have been physically disconnected (except for a subscriber who did not pay his balance due to the Company in the first three months of collection proceedings).

² Based on average lines for the period.

³ Churn rate is calculated according to the number of telephone subscribers who have disconnected from the Company's services during the period divided by the average number of telephone subscribers during the period.

⁴ The total number of broadband Internet lines includes retail and wholesale lines. Retail - direct Internet subscriber of the Company; Wholesale - Internet line through Bezeq's wholesale service for telecom operators.

⁵ ARPU - Revenues from retail broadband Internet services divided by the average number of retail subscribers in the period.

Subsidiary Company Results (Project Alpha) (Pelephone / Bezeq International / yes)

The third quarter of 2020 was marked by continued operational efficiency of the three companies. yes continued its positive trend of stabilizing profitability indices and Pelephone is successfully dealing with the impact of COVID-19 on roaming revenues. At Bezeq International, we performed a revaluation, and we are handling the accounting issue and will make necessary changes in the working methods and controls. The following are the key results for the quarter:

- Revenues of subsidiary companies amounted to NIS 1.173 billion in Q3 2020
- Decrease in total operating expenses of NIS 59 million year-over-year
- Bezeq International restated its financial reports after inspection of the company's books showed accounting discrepancies from 2002 onwards.
The discrepancies led to a restatement of the reports in a total amount of NIS 184 million. As a result, the company restated the impairment of assets recorded on December 31, 2019 from NIS 102 million to NIS 196 million. A further impairment in assets of NIS 282 million was recorded in Q3 2020 for the inactive subscribers
- yes continued its positive trend of stabilizing profitability indices. Operating profit amounted to NIS 18 million and net profit of NIS 16 million with positive free cash flow of NIS 25 million
- yes posted growth in subscribers from the beginning of the year and an increase in IP subscribers, representing 20% of the company subscribers in the yes+ and Sting TV services
- Pelephone was the first Israeli mobile operator to launch 5G services in Israel and to complete the deployment based on the Ministry of Communication's outline. The company continued to grow its subscriber base for the fifth consecutive year with 70,000 new subscribers since the beginning of the year

Ran Guron, CEO of Pelephone, Bezeq International and yes stated, "We have concluded our third quarter into the COVID-19 pandemic with good operational results, despite the impact on mobile roaming revenues. The companies continue to show improvement in operating expenses, with a year-over-year reduction of NIS 59 million in expenses, and after two decades, Pelephone transferred its corporate headquarters this month to Petach Tikvah.

In the work plan that was presented recently regarding the operational merger of the subsidiaries - Alpha, we will continue to streamline in other areas including real estate, manpower, consolidation of processes and interfaces and more."

In yes we continued the positive trend of stabilizing profitability metrics and positive cash flow since the beginning of the year. At the end of the quarter, we reached one hundred thousand customers on IP that constitute approximately 20% of all subscribers in the company. At Pelephone, we had a significant and historic quarter with the awarding of the 5G frequencies, and we were the first to launch and operate the commercial network, along with completing the deployment of the sites in accordance with the outline of the Ministry of Communications. At Bezeq International, we initiated an inspection of the company's books prior to the preparation of the reports, in which net asset balances were discovered from 2002 onwards. We informed the relevant parties and set up a team to examine the issue and change the company's working methods and controls."

Telephone Results

Revenues from services in the third quarter of 2020 were NIS 396 million, compared to NIS 394 million sequentially and NIS 446 million in the same quarter of 2019, a quarter-over-quarter increase of 0.5% and a year-over-year decrease of 11.2%.

The decrease in revenues from services was due to a decrease in roaming revenues as a result of the impact of the COVID-19 pandemic, partially offset by an increase in revenues from incoming calls.

Revenues from equipment sales in the third quarter of 2020 were NIS 149 million, compared to NIS 141 million sequentially and NIS 166 million in the same quarter of 2019, a quarter-over-quarter increase of 5.7% and a year-over-year decrease of 10.2%.

Revenues from equipment sales remained stable in the quarter despite the negative impact from the lockdown resulting from the COVID-19 pandemic.

Total revenues in the third quarter of 2020 were NIS 545 million, compared to NIS 535 million sequentially and NIS 612 million in the same quarter of 2019, a quarter-over-quarter increase of 1.9% and a year-over-year decrease of 10.9%.

Operating expenses in the third quarter of 2020 were NIS 572 million, compared to NIS 596 million in 2019, an improvement of NIS 24 million.

Operating loss in the third quarter of 2020 was NIS 27 million, compared to operating profit of NIS 16 million in the same quarter of 2019.

EBITDA in the third quarter of 2020 was NIS 120 million (EBITDA margin of 22.0%), compared to NIS 173 million (EBITDA margin of 28.3%) in the same quarter of 2019, a decrease of 30.6%.

Net loss in the third quarter of 2020 was NIS 12 million, compared to net profit of NIS 18 million in the same quarter of 2019.

Cash flow from operating activities in the third quarter of 2020 was NIS 143 million, compared to NIS 200 million in the same quarter of 2019, a decrease of 28.5%.



Press Release

Negative free cash flow in the third quarter of 2020 was NIS 24 million, compared to positive free cash flow of NIS 52 million in the same quarter of 2019.

Telephone's subscriber base increased by 30,000 subscribers sequentially in the third quarter of 2020 and total subscribers were 2.406 million at the end of September 2020.

Average revenue per subscriber (ARPU) in the third quarter of 2020 was NIS 55, in-line sequentially, and compared to NIS 65 in the same quarter of 2019.

Pelephone - Financial data	<u>Q3 2020</u>	<u>Q3 2019</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Total revenues	545	612	(10.9%)
Service revenues	396	446	(11.2%)
Equipment revenues	149	166	(10.2%)
Operating loss	(27)	16	
EBITDA	120	173	(30.6%)
EBITDA margin	22.0%	28.3%	
Net profit (loss)	(12)	18	
Cash flows from operating activities	143	200	(28.5%)
Payments for investments	100	72	38.9%
Free cash flow ¹	(24)	52	

¹ Free cash flow is defined as cash flow from operating activities less net payments for investments and leases.

Pelephone - KPIs	<u>Q3 2020</u>	<u>Q2 2020</u>	<u>Q3 2019</u>
Total subscribers (end of period, in thousands) ¹	2,406	2,376	2,310
Postpaid subscribers (end of period, in thousands) ¹	1,986	1,959	1,895
Prepaid subscribers (end of period, in thousands) ¹	420	417	415
Average revenue per user (ARPU, NIS) ²	55	55	65
Churn rate ³	7.1%	6.8%	7.3%

¹ Subscriber data includes Pelephone subscribers (excluding subscribers of operators that Pelephone hosts on its network as well as IOT subscribers) and do not include inactive subscribers who are connected to Pelephone's services for six months or more. An inactive subscriber is one who in the past six months has not received at least one call, not made at least one call/SMS, did not take one Internet action nor pay for any Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. A customer may have more than one subscriber line. Subscriber data includes subscribers who use different services (such as data for car media systems), whose average revenue is significantly lower than other subscribers.

² Average monthly revenue per subscriber (postpaid and prepaid) is calculated by dividing average monthly revenue from cellular services, both from Pelephone subscribers and from other communications operators, including revenues from cellular operators who use Pelephone's network, and repair and warranty services in the period by average Pelephone active subscribers in the same period.

³ Churn rate is calculated according to the proportion of subscribers who have disconnected from Pelephone's services and subscribers who have become inactive during the period divided by the total number of average active subscribers during the period.

Bezeq International Results

Revenues in the third quarter of 2020 were NIS 315 million compared to NIS 329 million in the same quarter of 2019, a decrease of 4.3%.

The decrease in revenues was primarily due to the decrease in revenues from Internet services, sales of communication equipment to businesses and international calls, partially offset by an increase in revenues from business communication services.

Operating expenses (excluding one-time adjustments) in the third quarter of 2020 were NIS 308 million, compared to NIS 324 million in the same quarter of 2019, a decrease of 4.9%.

The decrease in operating expenses was primarily due to a decrease in equipment and licensing expenses for businesses.

Other expenses, net in the third quarter of 2020 were NIS 282 million, compared to NIS 45 million in the same quarter of 2019. The increase in other expenses was due to the impairment of assets following a revaluation.

Operating loss in the third quarter of 2020 was NIS 275 million, compared to NIS 40 million in the same quarter of 2019. After adjusting for one-time expenses, operating profit amounted to NIS 7 million compared to NIS 5 million in the corresponding quarter.

EBITDA in the third quarter of 2020 amounted to negative NIS 233 million, compared to NIS 7 million (EBITDA margin of 2.1%) in the same quarter of 2019. After adjusting for one-time expenses, EBITDA amounted to NIS 49 million (EBITDA margin of 15.6%) compared to NIS 52 million (EBITDA margin of 15.8%) in the corresponding quarter.

Net loss in the third quarter of 2020 was NIS 305 million, compared to NIS 32 million in the same quarter of 2019. After adjusting for one-time expenses, net loss amounted to NIS 23 million compared to net profit of NIS 3 million in the corresponding quarter.

Cash flow from operating activities in the third quarter of 2020 was NIS 47 million, compared to NIS 64 million in the same quarter of 2019, a decrease of 26.6%. The decrease in cash flow from operating activities was primarily due to changes in working capital.

Free cash flow in the third quarter of 2020 was NIS 12 million, compared to NIS 16 million in the same quarter of 2019, a decrease of 25.0%.

Bezeq International	<u>Q3 2020</u>	<u>Q3 2019</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Revenues	315	329	(4.3%)
Operating profit	(275)	(40)	587.5%
EBITDA	(233)	7	
EBITDA margin	(74.0%)	2.1%	
Net profit	(305)	(32)	
Cash flows from operating activities	47	64	(26.6%)
Payments for investments	28	40	(30.0%)
Free cash flow ¹	12	16	(25.0%)

¹ Free cash flow is defined as cash flow from operating activities less net payments for investments and leases.

yes Results

Revenues in the third quarter of 2020 were NIS 313 million, compared to NIS 334 million the same quarter of 2019, a decrease of 6.3%.

The decrease in revenues was primarily due to a reduction in the average revenue per subscriber partially offset by an increase in revenues from content services (pay per view, and other).

Operating expenses in the third quarter of 2020 were NIS 295 million, compared to NIS 314 million in the same quarter of 2019, an improvement of NIS 19 million.

Operating expenses were impacted by a decrease in general and salary expenses.

Operating profit in the third quarter of 2020 was NIS 18 million, compared to NIS 20 million in the same quarter of 2019, a decrease of 10.0%. **EBITDA** in the third quarter of 2020 amounted to NIS 68 million (EBITDA margin of 21.7%), compared to NIS 70 million (EBITDA margin of 21.0%) in the same quarter of 2019, a decrease of 2.9%.

Net profit in the third quarter of 2020 was NIS 16 million, compared to NIS 15 million in the same quarter of 2019, an increase of 6.7%.

Cash flow from operating activities in the third quarter of 2020 was NIS 69 million, compared to NIS 37 million in the same quarter of 2019, an increase of 86.5%.

Free cash flow in the third quarter of 2020 was NIS 25 million, compared to negative free cash flow of NIS 40 million in the same quarter of 2019 an improvement of NIS 65 million.

ARPU in the third quarter of 2020 was NIS 187, compared to NIS 190 sequentially and NIS 195 in the same quarter of 2019.

The number of yes **subscribers** in the third quarter of 2020 decreased by 1,300 and reached 556,000 on September 30, 2020. However, from the beginning of 2020, the number of yes subscribers increased by 1,400. The penetration of IP set-top boxes reached 20% of total yes subscribers at the end of the third quarter of 2020.

yes - Financial data	<u>Q3 2020</u>	<u>Q3 2019</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Revenues	313	334	(6.3%)
Operating profit (loss)	18	20	(10.0%)
EBITDA	68	70	(2.9%)
EBITDA margin	21.7%	21.0%	
Net profit (loss)	16	15	6.7%
Cash flows from operating activities	69	37	86.5%
Payments for investments	38	69	(44.9%)
Free cash flow ¹	25	(40)	

¹ Free cash flow is defined as cash flow from operating activities less net payments for investments and leases.

yes - KPIs	<u>Q3 2020</u>	<u>Q4 2019</u>	<u>Q3 2019</u>
Number of subscribers (end of period, in thousands) ¹	556	557	558
Average revenue per user (ARPU, NIS) ²	187	190	195
Churn rate (%) ³	5.4%	4.8%	5.5%

¹ Subscriber – one household or small business customer. For a business customer with numerous set top boxes (such as a hotel, kibbutz or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined once every period.

² ARPU includes total yes revenues (excluding the sale of content to external broadcasters) divided by average subscribers for the period. 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 were restated.

³ Churn rate - the number of yes subscribers who left yes during the period divided by the average number of registered yes subscribers in the period. The churn rate includes the transfer of yes subscribers from satellite services to STING TV services and vice versa. yes estimates this transition rate is negligible and does not exceed 1% of all yes subscribers per year.



Press Release

Conference Call & Webcast Information

Bezeq will conduct a conference call hosted by Mr. Gil Sharon, Bezeq Chairman, Mr. Dudu Mizrahi, Bezeq CEO, Mr. Ran Guron, CEO of Pelephone, Bezeq International and yes, and Mr. Yali Rothenberg, Bezeq Group outgoing Chief Financial Officer on December 1, 2020, at 5:00 PM Israel Time / 10:00 AM Eastern Time. Participants may join the live conference call by dialing:

International Phone Number: + 972-3-918-0609

Israel Phone Number: 03-918-0609

A live webcast of the conference call will be available on the investor relations section of the Bezeq corporate website at www.bezeq.co.il. Please visit the website at least 15 minutes early to register for the webcast and download any necessary audio software.

A webcast replay will be made available on the investor relations section of Bezeq's corporate website. An automated telephone replay will also be available approximately three hours after the completion of the live call through Friday, December 4, 2020. Participants can access and listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5930

Israel Phone Number: 03-925-5930



About "Bezeq" The Israel Telecommunication Corp.

Bezeq is Israel's leading telecommunications service provider. Established in 1984, the Company has led Israel into the new era of communications, based on the most advanced technologies and services. Bezeq and its subsidiaries offer the full range of telecommunications services including domestic, international and cellular phone services; broadband Internet, cloud and digital services, and other data communications; satellite and Internet based multi-channel TV; and corporate networks.

For more information about Bezeq please visit the corporate website at <http://ir.bezeq.co.il>.

This press release contains partial information from the public reports of Bezeq under the Israeli Securities Law 5728-1968 (the "Securities Law"), which reports can be accessed at the Israeli Securities Authority's website, www.magna.isa.gov.il. A review of this press release is not a substitute for a review of the detailed reports of Bezeq under the Securities Law and is not meant to replace or qualify them; rather, the press release is prepared merely for the convenience of the reader, with the understanding that the detailed reports are being reviewed simultaneously. No representation is made as to the accuracy or completeness of the information contained herein.

This press release does not constitute an offer or invitation to purchase or subscribe for any securities, and neither this presentation nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever.

Investor Relations Contact:

Mr. Naftali Sternlicht
Bezeq
Phone: +972-2-539-5441
Email: ir@bezeq.co.il

Media Relations Contact:

Mr. Guy Hadass
Bezeq
Phone: +972-3-626-2600
Email: pr@bezeq.co.il



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Income					
	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	6,520	6,727	2,178	2,247	8,929
Costs of activity					
General and operating expenses	2,351	2,454*	790	813*	3,308
Salaries	1,397	1,455	474	474	1,933
Depreciation, amortization, and impairment losses	1,374	1,425	464	481	1,912
Other operating income, net	(29)	(400)	(7)	39	(221)
Impairment loss	268	951	268	-	1,147*
Total operating expenses	5,361	5,885*	1,989	1,807*	8,079*
Operating profit (loss)	1,159	842*	189	440*	850*
Financing expenses (income)					
Financing expenses	314	481	94	224	624
Financing income	(41)	(41)	(14)	(19)	(75)
Financing expenses, net	273	440	80	205	549
Profit (loss) after financing expenses, net	886	402*	109	235*	301*
Share in losses of equity-accounted investees	-	(2)	-	(1)	(2)
Profit (loss) before income tax	886	400*	109	234*	299*
Income tax	264	1,507*	83	57*	1,493*
Profit (loss) for the period	622	(1,107)*	26	177*	(1,194)*
Basic earnings (loss) per share (in NIS)	0.23	(0.40)*	0.01	0.06*	(0.43)*

*Restated



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Financial Position

	September 30, 2020	September 30, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	897	639	400
Investments	1,306	1,750	1,195
Trade receivables	1,692	1,727*	1,677*
Other receivables	332	341*	342*
Inventory	96	94	96*
Assets held for sale	46	-	43
Total current assets	4,369	4,551	3,753
Trade and other receivables	525	442	477
Broadcasting rights, net of rights exercised	67	63	59
Right-of-use assets	1,276	1,361	1,308*
Fixed assets	6,069	6,217	6,039*
Intangible assets	952	968	916*
Deferred expenses and non-current investments	233	477*	358*
Deferred tax assets	53	18	81*
Total non-current assets	9,175	9,546	9,238
Total assets	13,544	14,097	12,991



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Financial Position (Contd.)

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	December 31, 2019 (Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	957	1,126	1,007
Current maturities of liabilities for leases	387	427	416
Trade and other payables	1,669	1,681*	1,614*
Employee benefits	441	365	654
Provisions	113	143	125
Current tax liabilities	46	15	-
Total current liabilities	3,613	3,757	3,816
Loans and debentures	8,507	9,393	8,551
Liability for leases	971	989	969
Employee benefits	334	539	356
Derivatives and other liabilities	342	178	139
Liabilities for deferred taxes	48	50	43
Provisions	54	39	49
Total non-current liabilities	10,256	11,188	10,107
Total liabilities	13,869	14,945	13,923
Total equity	(325)	(848)*	(932)*
Total liabilities and equity	13,544	14,097	12,991



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit (loss) for the period	622	(1,107)*	26	177*	(1,194)*
Adjustments:					
Depreciation, amortization, and impairment losses	1,374	1,425	464	481	1,912
Impairment loss (gain) of assets	268	951	268	-	1,147
Share in losses of equity-accounted investees	-	2	-	1	2
Financing expenses, net	291	395	82	171	497
Capital gains, net	(11)	(472)	(6)	(11)	(508)
Income tax expenses	264	1,507*	83	57*	1,493*
Change in trade and other receivables	(18)	47*	26	20*	103*
Change in inventory	(10)	(5)	10	4	(19)*
Change in trade and other payables	(91)	(120)*	34	50*	(77)*
Change in provisions	(11)	(32)	(8)	(5)	(49)
Change in employee benefits	(232)	(156)	(66)	(58)	(50)
Change in other liabilities	(12)	(17)	(5)	(11)	(8)
Net income tax paid	(164)	(242)	(78)	(89)	(325)
Net cash from operating activities	2,270	2,176	830	787	2,924

*Restated



"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Cash Flows (Cont'd)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow used for investing activities					
Purchase of fixed assets	(824)	(851)	(342)	(300)	(1,095)
Investment in intangible assets and deferred expenses	(307)	(302)	(100)	(104)	(382)
Investment in bank deposits and securities	(1,215)	(1,965)	(243)	(185)	(2,067)
Proceeds from bank deposits and sales of securities	1,112	1,616	161	379	2,297
Proceeds from the sale of fixed assets	31	64	3	15	76
Proceeds from sale of the Sakia complex	-	328	-	-	328
Proceeds (payment) from permit fees, betterment levy, and purchase tax for the Sakia complex	-	(74)	-	75	(74)
Refund of betterment tax on account of the sale of the Sakia complex	-	5	-	-	5
Miscellaneous	9	7	(1)	(3)	29
Net cash used in investing activities	(1,194)	(1,172)	(522)	(123)	(883)



"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Cash Flows (Cont'd)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from financing activities					
Issue of debentures and receipt of loans	718	1,688	-	1,188	1,865
Repayment of debentures and loans	(772)	(2,333)	(3)	(1,971)	(3,447)
Payments of principal and interest for leases	(305)	(322)	(106)	(115)	(414)
Interest paid	(164)	(211)	(5)	(21)	(392)
Costs for early repayment of loans and debentures	(51)	(73)	-	(73)	(93)
Miscellaneous	(5)	(4)	(5)	(4)	(50)
Net cash used for financing activities	(579)	(1,255)	(119)	(996)	(2,531)
Increase (decrease) in cash and cash equivalents, net					
	497	(251)	189	(332)	(490)
Cash and cash equivalents at beginning of period	400	890	708	971	890
Cash and cash equivalents at end of period	897	639	897	639	400



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Other Operating Expenses (Income), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gains (losses) (mainly from the sale of real estate)	11	472	6	11	508
Proceeds from settlement agreements	9	-	-	-	-
Cancellation (recognition) of provision for early retirement in Pelephone, Bezeq International and yes	5	(90)	-	(45)	(167)
Cancellation (recognition) of provision for early retirement in Bezeq	-	21	-	(3)	(109)
Cancellation (recognition) of provision for legal claims	3	(3)	1	(2)	(10)
Others	1	-	-	-	(1)
Total operating income (expenses), net	29	400	7	(39)	221

"Bezeq" The Israel Telecommunication Corp., Limited

Financing Expenses, Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	211	268	66	94	349
Costs for early repayment of loans and debentures	51	73	-	73	93
Linkage and exchange rate differences	16	31	10	-	43
Financing expenses for lease commitments	21	22	7	9	29
Other financing expenses	7	6	3	3	12
Financing expenses for employee benefits	8	72	8	42	89
Change in fair value of financial assets	-	9	-	3	9
Total financing expenses	314	481	94	224	624
Income from credit in sales	23	23	8	8	29
Linkage and exchange rate differences	-	-	-	5	-
Change in fair value of financial assets	3	-	-	-	-
Other financing income	15	18	6	6	32
Income from debenture exchange	-	-	-	-	14
Total financing income	41	41	14	19	75
Total financing expenses, net	273	440	80	205	549



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Impairment of Assets

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Loss from impairment of assets in Bezeq International	282	-	282	-	196*
Cancellation of loss from impairment of assets in Walla	(14)	-	(14)	-	-
Loss from impairment of assets in Pelephone	-	951	-	-	951
	268	951	268	-	1,147*

*Restated

"Bezeq" The Israel Telecommunication Corp., Limited

Restatement

Effect on Income Statement – September 30, 2019

	For the nine month period ending September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS Million	NIS Million	NIS Million
Operating & general expenses	2,420	34	2,454
Operating profit	876	(34)	842
Income taxes	1,516	(9)	1,507
Net loss for the period	(1,082)	(25)	(1,107)
Loss per share (NIS)	(0.39)	(0.01)	(0.40)

	For the three month period ending September 30, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS Million	NIS Million	NIS Million
Operating & general expenses	794	19	813
Operating profit	459	(19)	440
Income taxes	62	(5)	57
Net loss for the period	191	(14)	177
Loss per share (NIS)	0.07	(0.01)	0.06

Effect on Balance Sheet - September 30, 2019

	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS Million	NIS Million	NIS Million
Trade receivables	1,746	(19)	1,727
Other receivables	317	24	341
Deferred expenses and non-current investments	469	8	477
Trade and other payables	1,503	178	1,681
Deficit balance	(5,276)	(165)	(5,441)
Total equity (deficit)	(683)	(165)	(848)



Press Release

"Bezeq" The Israel Telecommunication Corp., Limited

Restatement (Cont'd)

Effect on Income Statement – December 31, 2019

	For the year ending December 31, 2019		
	As previously reported	Effect of restatement	As reported in these financial statements
	(Unaudited) NIS Million	(Unaudited) NIS Million	(Unaudited) NIS Million
Operating & general expenses	3,263	45	3,308
Loss from impairment of assets	1,053	94	1,147
Operating profit	989	(139)	850
Income taxes	1,525	(32)	1,493
Net loss	(1,087)	(107)	(1,194)
Loss per share (NIS)	(0.39)	(0.04)	(0.43)

Effect on Balance Sheet - December 31, 2019

	As previously reported	Effect of restatement	As reported in these financial statements
	(Audited)	(Audited)	(Audited)
	NIS Million	NIS Million	NIS Million
Trade receivables	1,689	(12)	1,677
Other receivables	313	29	342
Inventory	93	3	96
Right-of-use assets	1,292	16	1,308
Fixed assets	6,096	(57)	6,039
Intangible assets	935	(19)	916
Deferred expenses and non-current investments	386	(28)	358
Deferred tax assets	59	22	81
Trade and other payables	1,413	201	1,614
Deficit balance	(5,279)	(247)	(5,526)
Total equity (deficit)	(685)	(247)	(932)