

BEZEQ INVESTOR PRESENTATION

March 28, 2019

Eyes on the future



Bezeq

Forward-Looking Information and Statement

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Bezeq - Largest Telecom Group in Israel



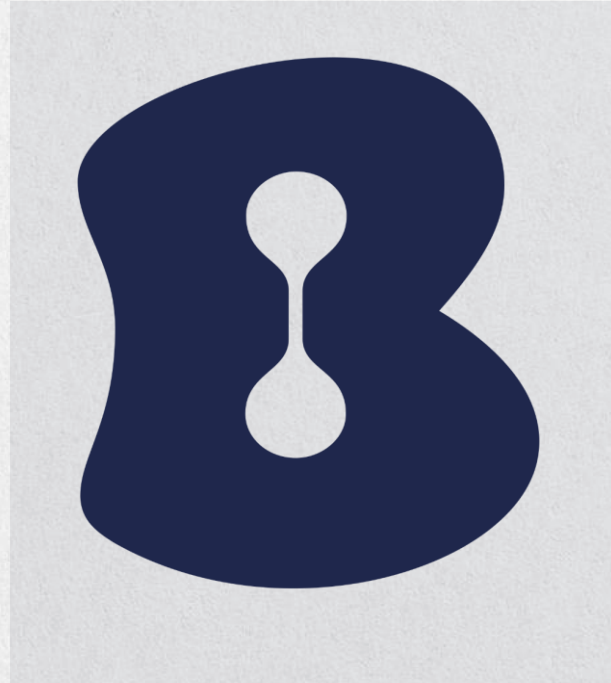
Revenues of
NIS 9.3 billion



Adjusted EBITDA of
NIS 3.5 billion



1.8 million fixed
access lines



2.2 million
cellular
subscribers



Rating - 'AA.il'



574,000 Pay-TV
customers



1.6 million
broadband lines



Bezeq

Bezeq Group Strategy

The Bezeq Group is implementing a 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

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

Working on all of the above while taking a "360" 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 home at the center and is working to deepen the customer experience through a variety of services

- ▶ Strengthening the wireless network at the customer's home
 - ▶ **BE router** - Since its launch in April 2018, more than 150 thousand customers have upgraded to the BE router (about 15% of total Bezeq broadband retail lines)
 - ▶ **BE and Bspot** services significantly reduce churn (a 50% decrease)
- ▶ Expansion of the basket of services and launching of new products and value added services (sensors, etc.) In addition, Bezeq leads in business solutions and serves ~180,000 SMEs in Israel

Broadband Retail ARPU (NIS)



Bezeq Fixed-Line - Marketing of Terminal Equipment

Bezeq Fixed-Line recently entered the terminal equipment market - in the first stage through the sale of smartphones 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

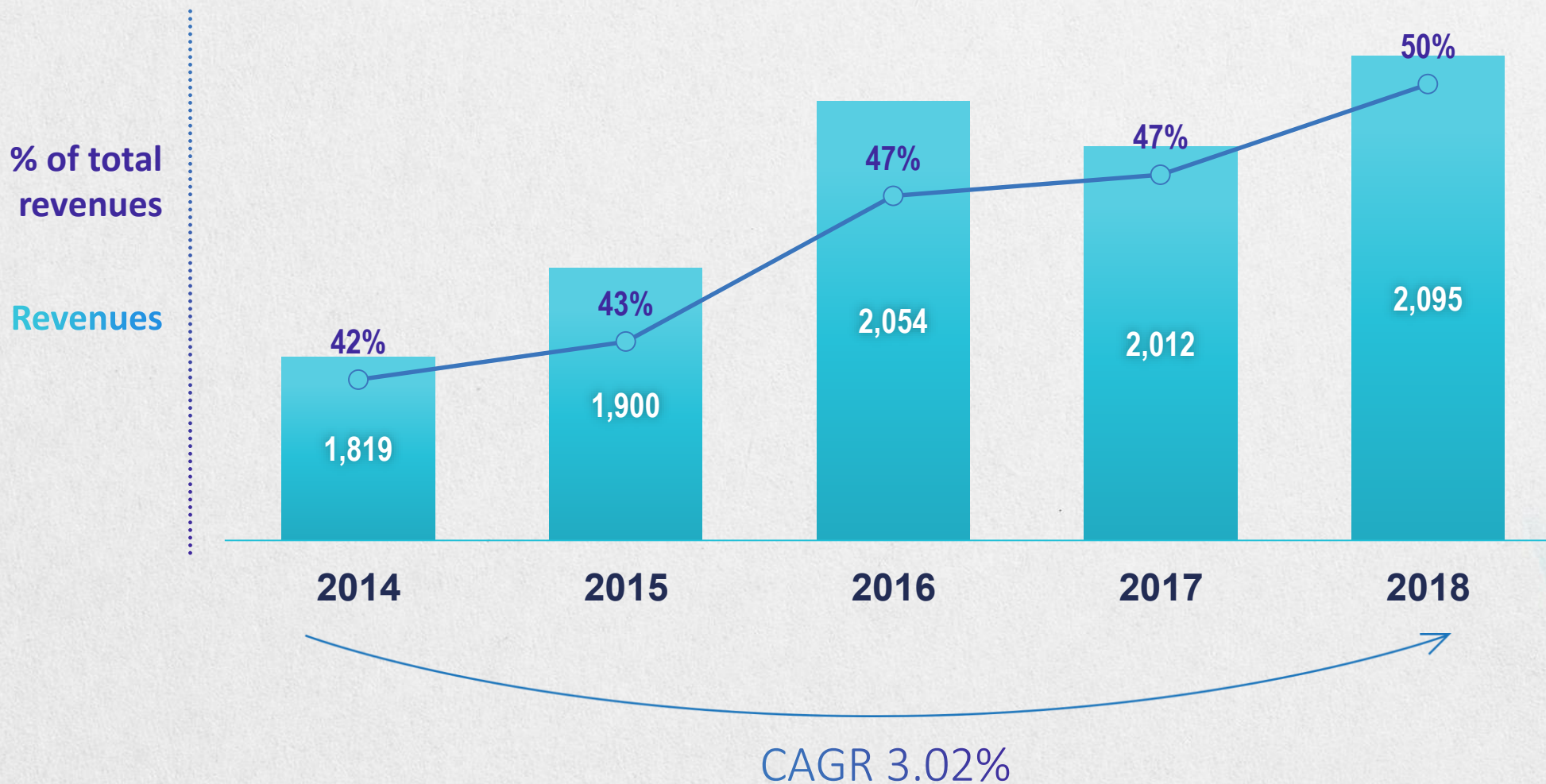


Harnessing the power of the Bezeq brand and marketing strength is expected to significantly increase the overall revenue potential of this sector



Bezeq Fixed-Line - Leadership in Business Segment

Bezeq is advancing its services in the business sector while providing innovative solutions to its customers



Bezeq Fixed-Line - Employee Streamlining

Actions Taken

During 2018, an early retirement plan was approved for the retirement of 407 employees at a total cost of NIS 547 million:

2018

Early retirement of 70 employees - estimated annual savings of NIS 24 million

2019

Early retirement of 243 employees - estimated annual savings of NIS 80 million

2020 - 2021

Early retirement of 94 employees - estimated annual savings of NIS 42 million

The provision for 2018 included all of the remaining employees transferred to the Company from the Ministry of Communications with higher than average salaries and retirement costs

Bezeq Fixed-Line - Employee Streamlining

Plan

The Company intends to take advantage of the total potential of the retirement plan that has not yet been approved for hundreds of additional employees under the terms of the current collective agreement (until 2021)

Concurrently with the annual savings, we expect a continued average wage creep of 3% of the salary of the remaining employees

Employee retirement costs are expected to be lower in the future as a result of the provision in 2018 for all of the transferred employees

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

Actions Taken

- ▶ In January 2018, the Company sold the "Sakia" compound for NIS 497 million and received the first payment of NIS 155 million in the fourth quarter of 2018. Each additional payment until 2022 accrues interest and the last contract payment may be made until June 2023
- ▶ In December 2018, the Company signed an agreement to transfer Bezeq's headquarters from Azrieli Tel Aviv to its new offices in Holon in 2021. The move is expected to result in savings of tens of millions of shekels in operating expenses, mainly a reduction in rent and municipal taxes

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 year

Review of physical layout, communication connections and energy durability in currently owned buildings for utilization as Data Centers

Bezeq Fixed-Line - Deployment of Fiber Optics

Bezeq is the only company in Israel that is willing and capable of deploying fiber optics nationwide at an accelerated pace

- ▶ Upgrade to ultra-fast broadband speeds
- ▶ The Company is conducting discussions with the Ministry of Communications with the aim of summarizing conditions that will allow entry into the project on an economic basis
 - ▶ The dialogue has narrowed the gaps between the parties on some of the issues, and the Company expects that the Ministry will publish a policy paper that stimulates investments as early as possible
 - ▶ However, it is difficult to assess whether and when these discussions will ripen into binding understandings that will allow for the accelerated deployment of fiber and the beginning of the provision of services, among other factors, in light of the elections and the potential change in ministers

Subsidiaries

yes.

 Bezeq
International


Pelephone

Bezeq



Servicing ~ 4m customers per day

Maximizing Synergies in Subsidiaries - Pelephone, yes, Bezeq International

Actions Taken

Transition to integrated management team -

Streamlining decision-making processes, while saving millions of shekels per year

Reduction of hundreds of employees in 2H 2018
Savings of ~ 40% in salary expenses

Financial savings due to joint purchasing - one advertising agency for all three companies

Signing of a collective arrangement in yes for streamlining and synergies - enables retirement of 325 employees as well as the non-recruitment of additional employees over the agreement period

Current

Negotiations with Pelephone and Bezeq International labor unions for reductions in the workforce and realization of synergies

Maximizing Synergies in Subsidiaries - Pelephone, yes, Bezeq International

Plan

Adapting the offering to the customer, similar to Israeli and worldwide trends for a comprehensive telecom solution

Cross-selling - Improve marketing capability for customers who do not currently receive service from the three companies

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

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

Streamlining in salaries and other operating expenses. Improved processes and joint purchasing

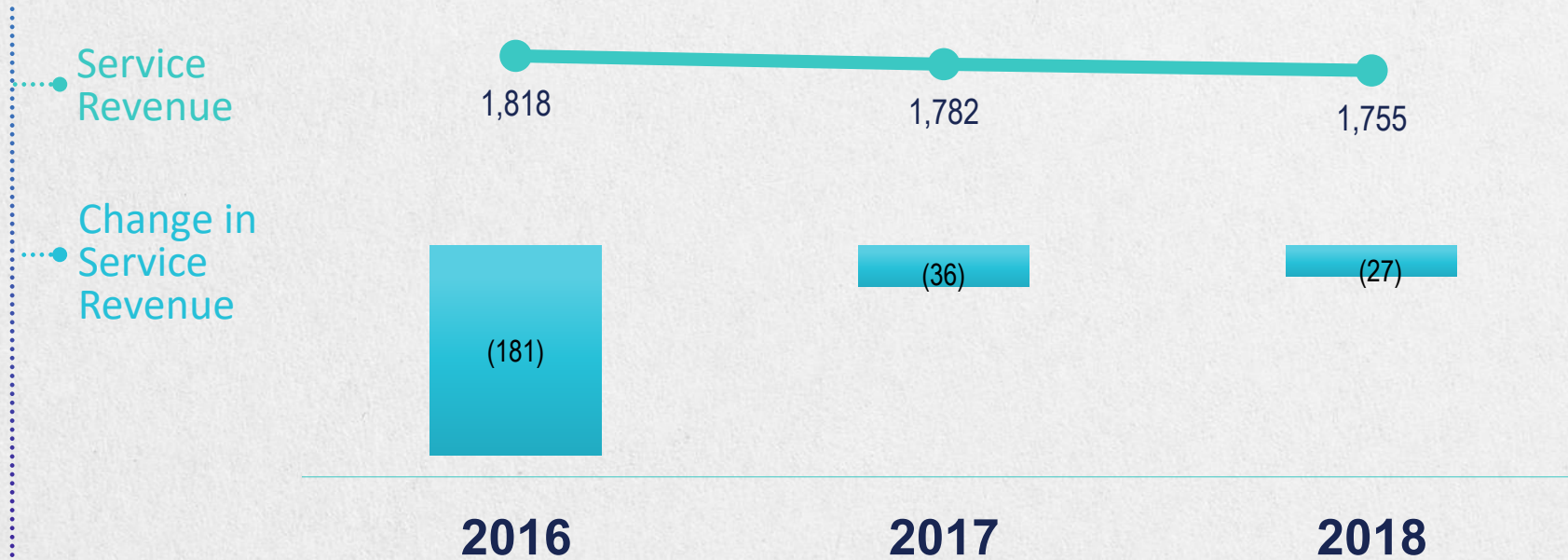
Pelephone - Subscriber Growth

Postpaid Subscribers (thousands)



Stabilizing Revenues in Pelephone

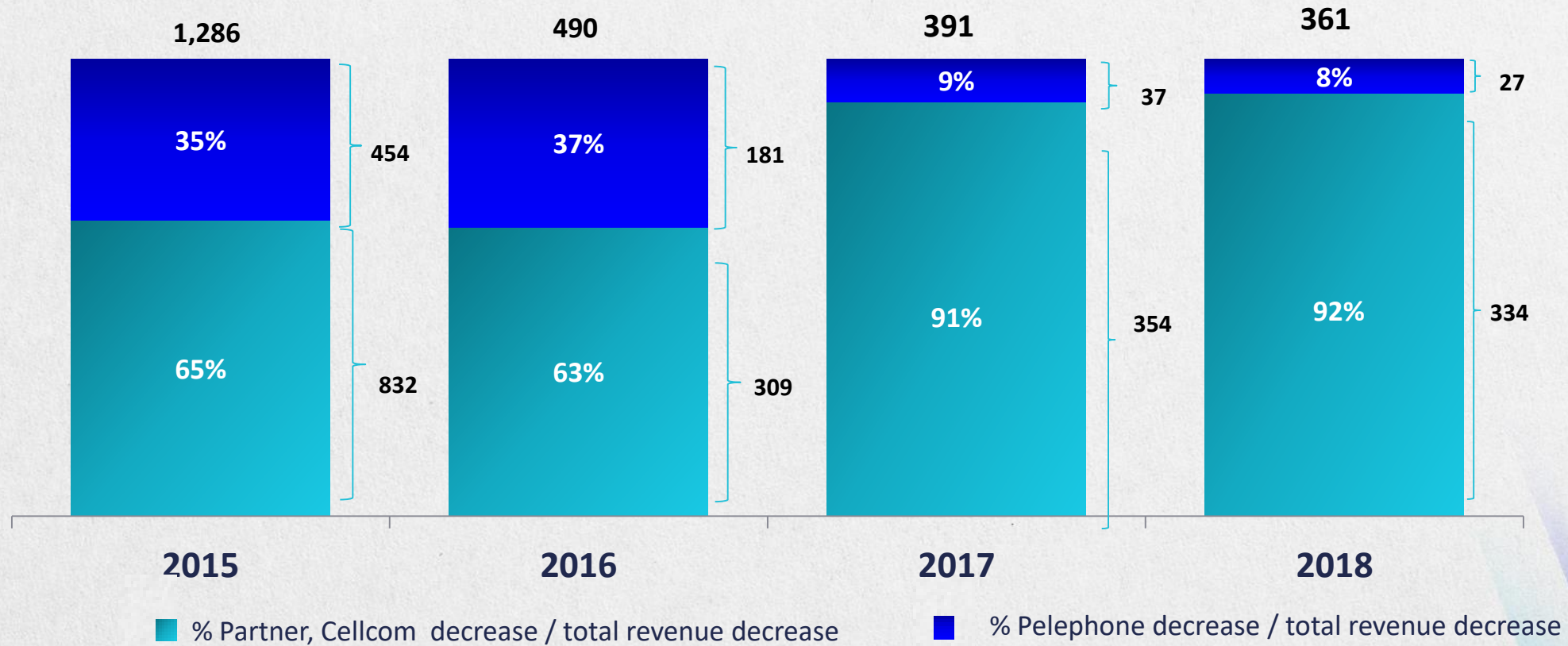
Revenues from Services and Change vs. Corresponding Period (NIS millions)



2018 was characterized by an additional rise in competition in the cellular market with the entrance of another operator. Pelephone successfully stemmed the erosion in revenues from services

Stabilizing Revenues in Pelephone

Decrease in revenues from services of the three incumbent operators* |NIS millions



In the stormy mobile market, Pelephone successfully reduced the erosion in revenues from services compared to its competitors

*Source: Company reports

Pelephone - Growth alongside Innovation



Growth in subscriber base

- Subscriber growth for 3 consecutive years
- Wide retail distribution
- Moderating rate of decline in revenues from services over the years
- Advanced cellular network in Israel

Innovation

Connected Cars, PTT, IoT, Big Data, Cyber, Cloud, ESIM





Pelephone

Pelephone – Continuing to Accelerate Speeds

Pelephone has deployed MIMO 4X4 and Beam Forming technologies nationwide which are available with only a small number of operators worldwide. The technologies enable innovative and high-quality network at high speeds

5G is expected to bring customers high broadband speeds, as well as support for a greater number of devices connected to the network

Pelephone is preparing for the entry of 5G into Israel, both in terms of the allocation of frequencies and the planning of its core network, subject to the MOC tender



Bezeq

Bezeq International - Leading ISP in Israel

- 38% market share
- Innovative infrastructures
- Significant player in the business market
- Advanced IP services



ISP
NGN
Next Generation Network
PRIVATE NGN

Ownership of
submarine cable as
competitive edge

Growth Engine - Triple Play of STINGTV + Internet (ISP + Infrastructure)

Bezeq International - Wide Range of Services for Private and Business Markets

ICT



Business Solutions

- ▶ Growth engines for private and business markets: cyber; a wide range of cloud solutions; business solutions; DR storage and backup
- ▶ Business integration for a wide circle of customers in the business and public sectors (many of them over the years) - the largest player in the field
- ▶ Server farms and managed services
 - ▶ Wide distribution of data centers
 - ▶ Expanding managed solutions for customers through an advanced server farm network, cloud services, and business applications
 - ▶ Professional services in the areas of installation; service and project management in cyber security networking and systems

Business Solutions - Bezeq International is a significant player in a growing market

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



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



Best Content:
Original, varied and high
quality, First class
international content

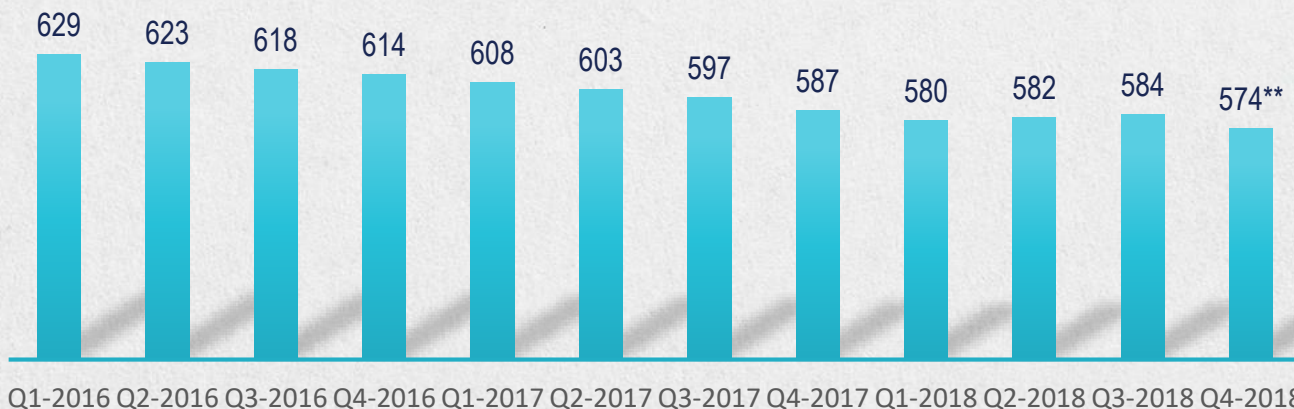


Brand with the highest
customer satisfaction



Quality viewing
experience

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. | yes STING TV - OTT Platform for Low Cost Market

- ▶ Growing brand that appeals to new audiences
- ▶ Full digital interface
- ▶ High quality content from yes
- ▶ Triple play with Bezeq International



yes.

Transition to IP Broadcasting to Enhance Viewing Experience and Reduce Costs

yes will implement a gradual process of migration from satellite to IP broadcasting as part of the emerging trends in the sector and the transfer of operations over the Group's infrastructure

The IP platform enables a significant upgrade of the viewing experience with advanced product features such as an intuitive, personal user experience with advanced viewing capabilities derived from cloud technology

- ▶ 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 decreased expenses - acquisition of set top boxes, installation and service costs
 - ▶ Shelf STBs to replace tailor made - flexible operating system for the customer



Bezeq

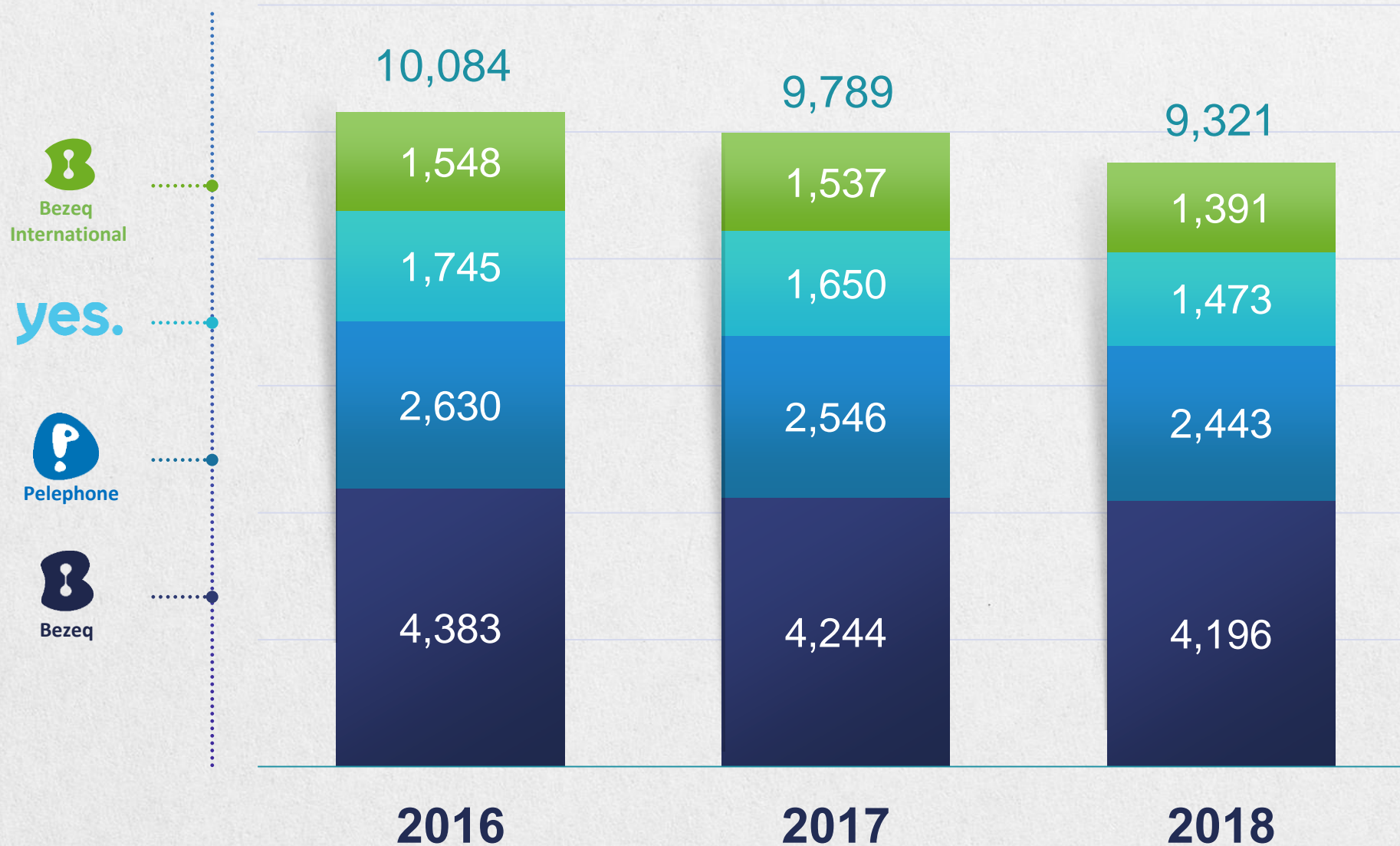
Cancellation of Structural Separation

- ▶ The cancellation of the structural separation is anchored in a policy document published by the Minister of Communications in 2012 and is based on the recommendations of the Hayek Committee. In the Company's opinion all the conditions justify and require the cancellation of the structural separation in accordance with this policy document
- ▶ Over the years, the Company has approached the Ministry of Communications several times, and in view of the prolonged absence of a decision, in February 2019, Bezeq filed a petition with the High Court of Justice against the Ministry of Communications to immediately cancel the structural separation
- ▶ Cancellation of the structural separation will enable the Company to save on operating expenses, while significantly improving service and customer experience as well as utilization of the deferred tax asset
- ▶ Establishment of Partnerships – as an interim step until the cancellation of the structural separation. The Company is examining the establishment of partnerships for each subsidiary and is in discussions with the Income Tax Authority and the Ministry of Communications

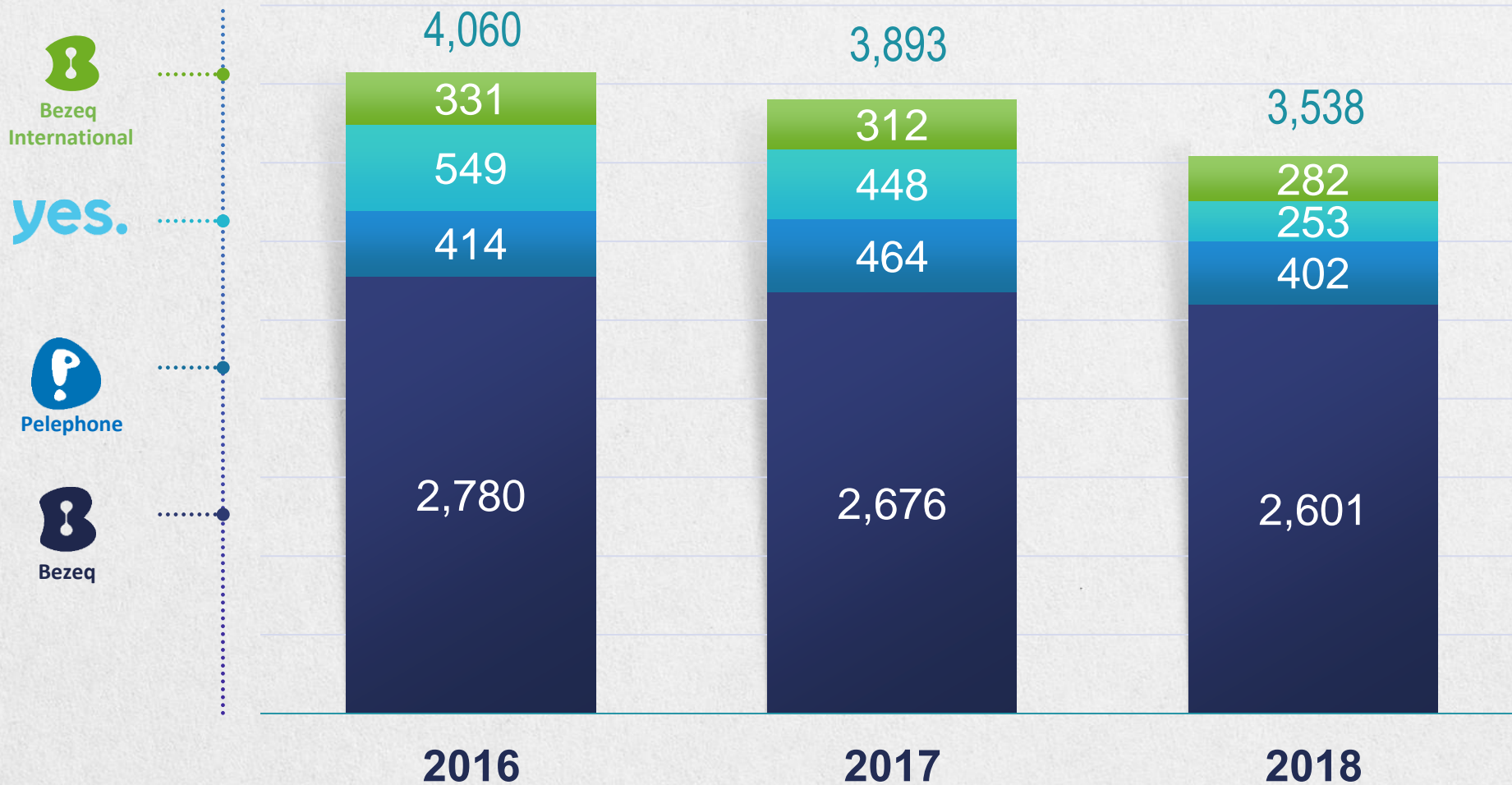
Financial Results



Bezeq Group Revenues | (NIS millions)



Bezeq Group Adjusted EBITDA | (NIS millions)

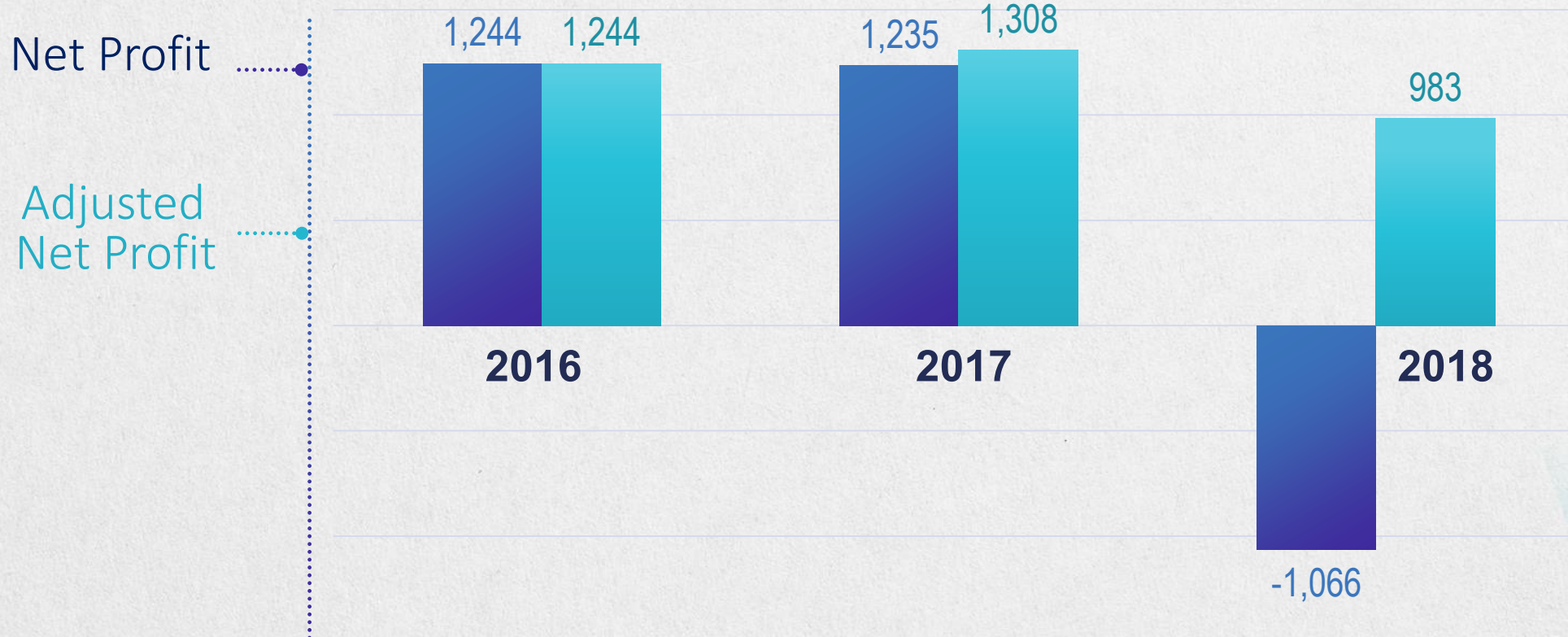


* After adjusting for other expenses/income and effect of early adoption of IFRS 16

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

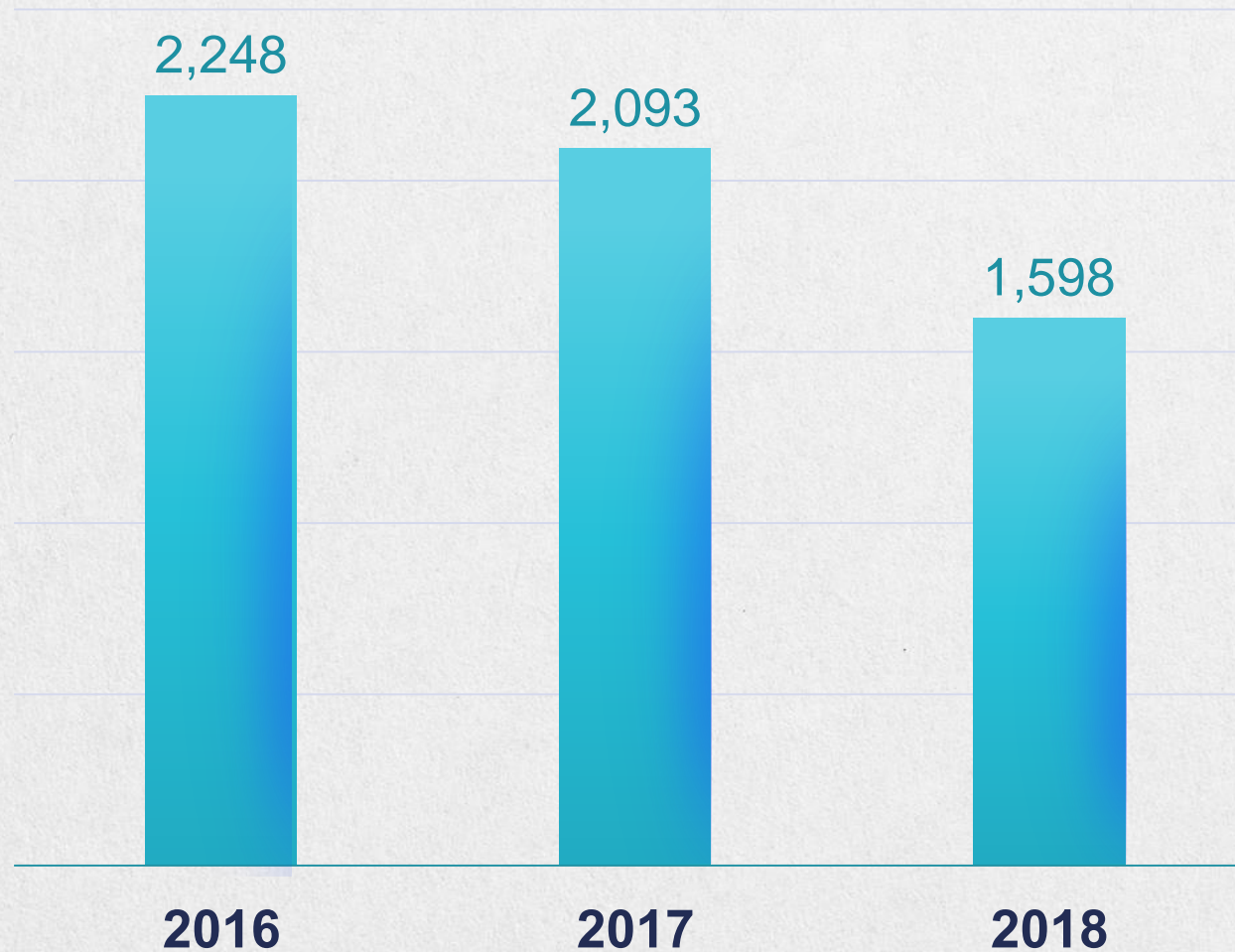
Decrease in 2018 Net Profit:

- ▶ Loss from impairment (mainly yes) - NIS 1.675 billion
- ▶ Early retirement provision - NIS 559 million



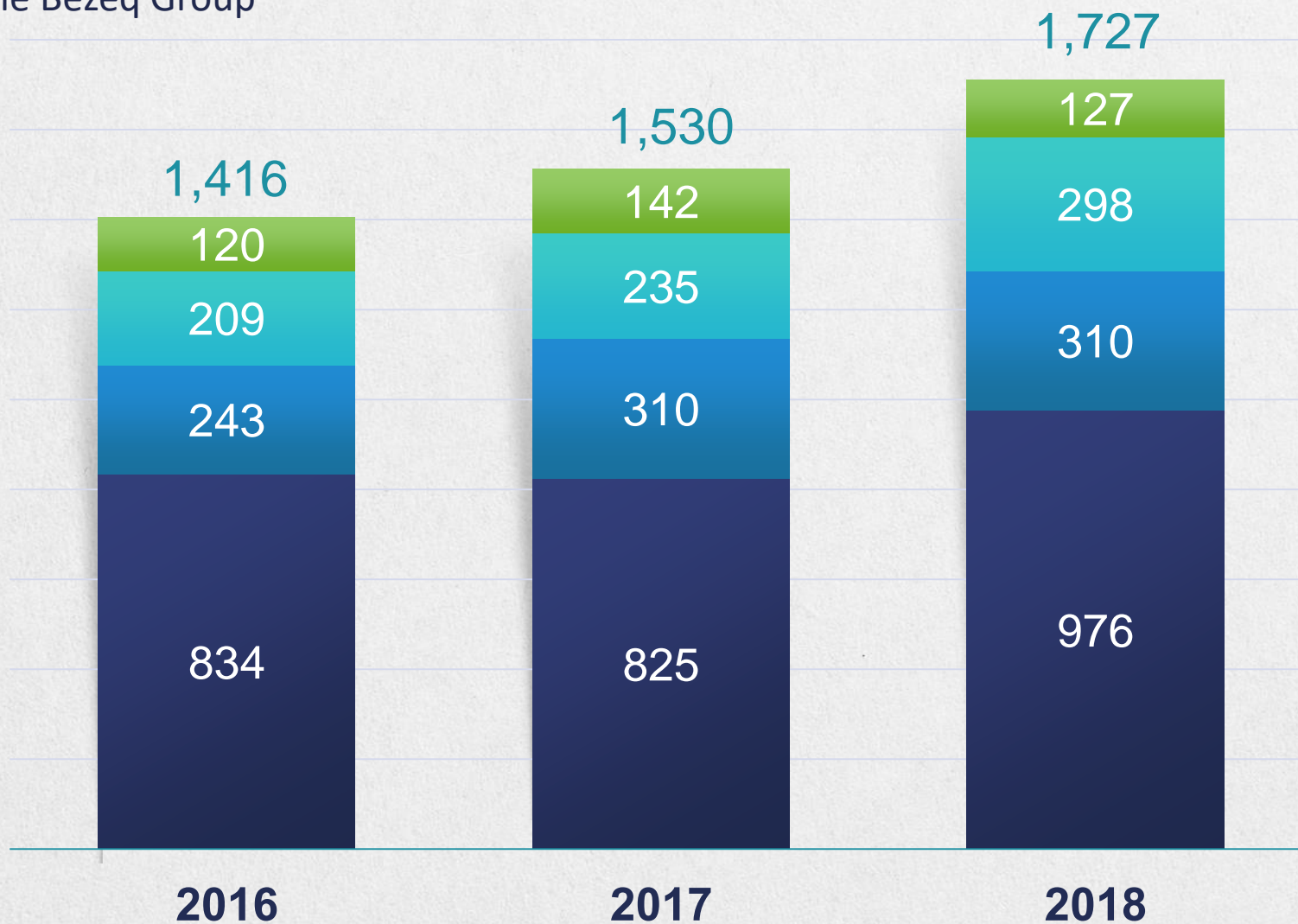
* After adjusting for other expenses/income and effect of early adoption of IFRS 16

Bezeq Group Free Cash Flow | (NIS millions)



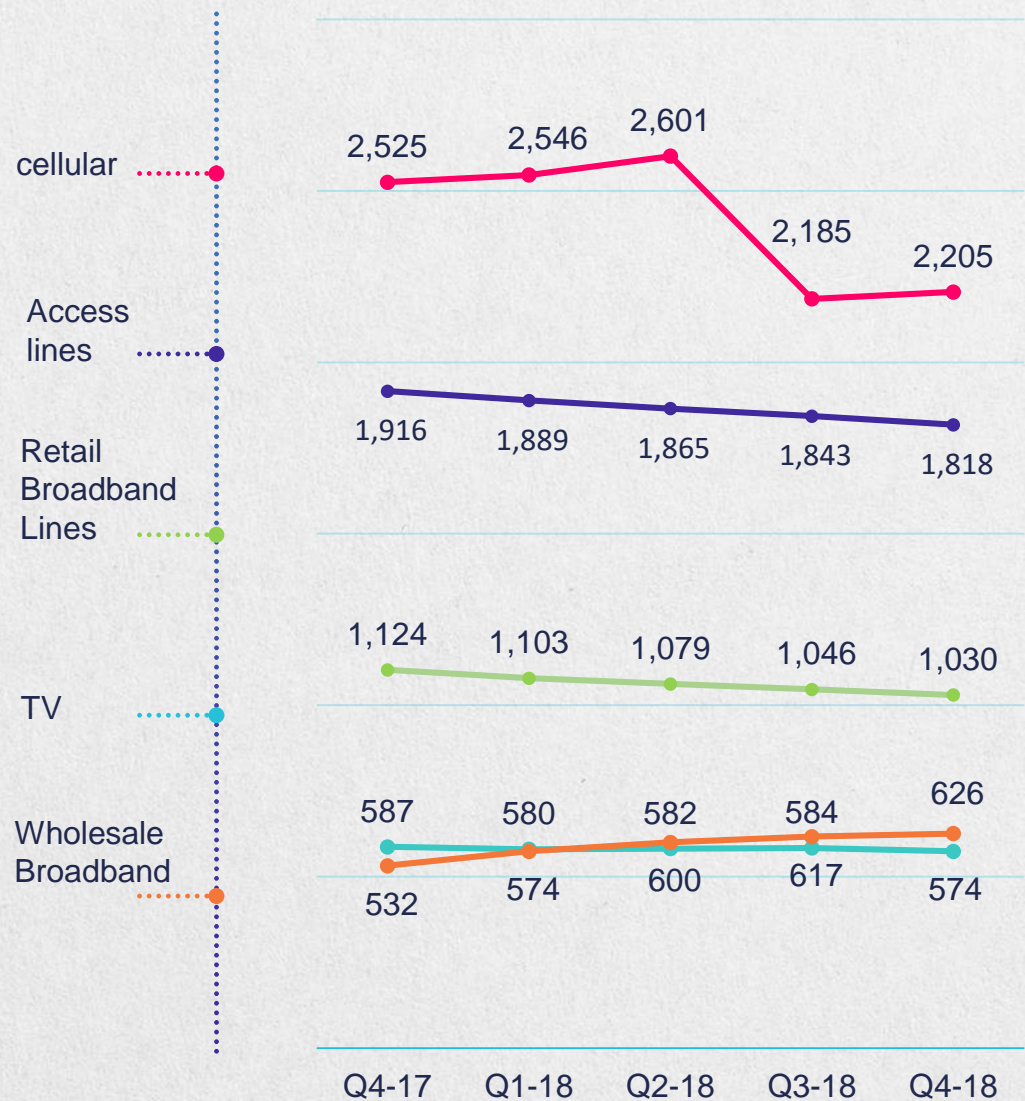
Bezeq Group CAPEX | (NIS millions)

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

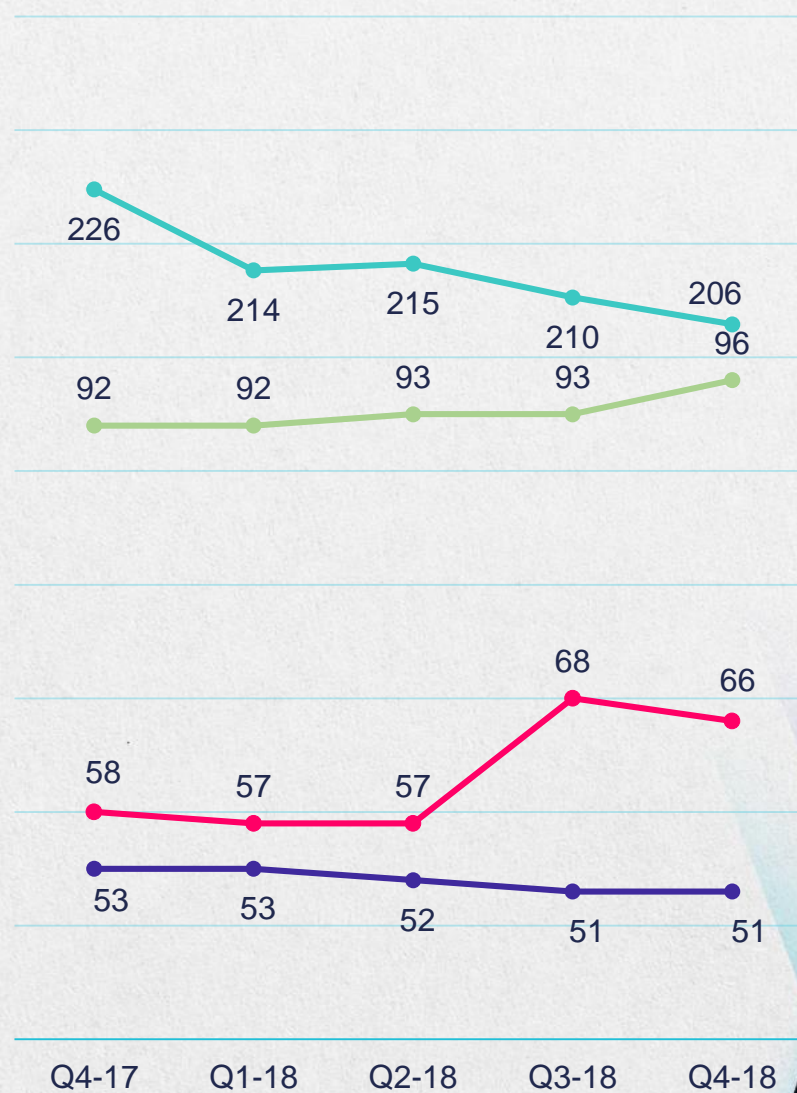


Bezeq Group KPIs

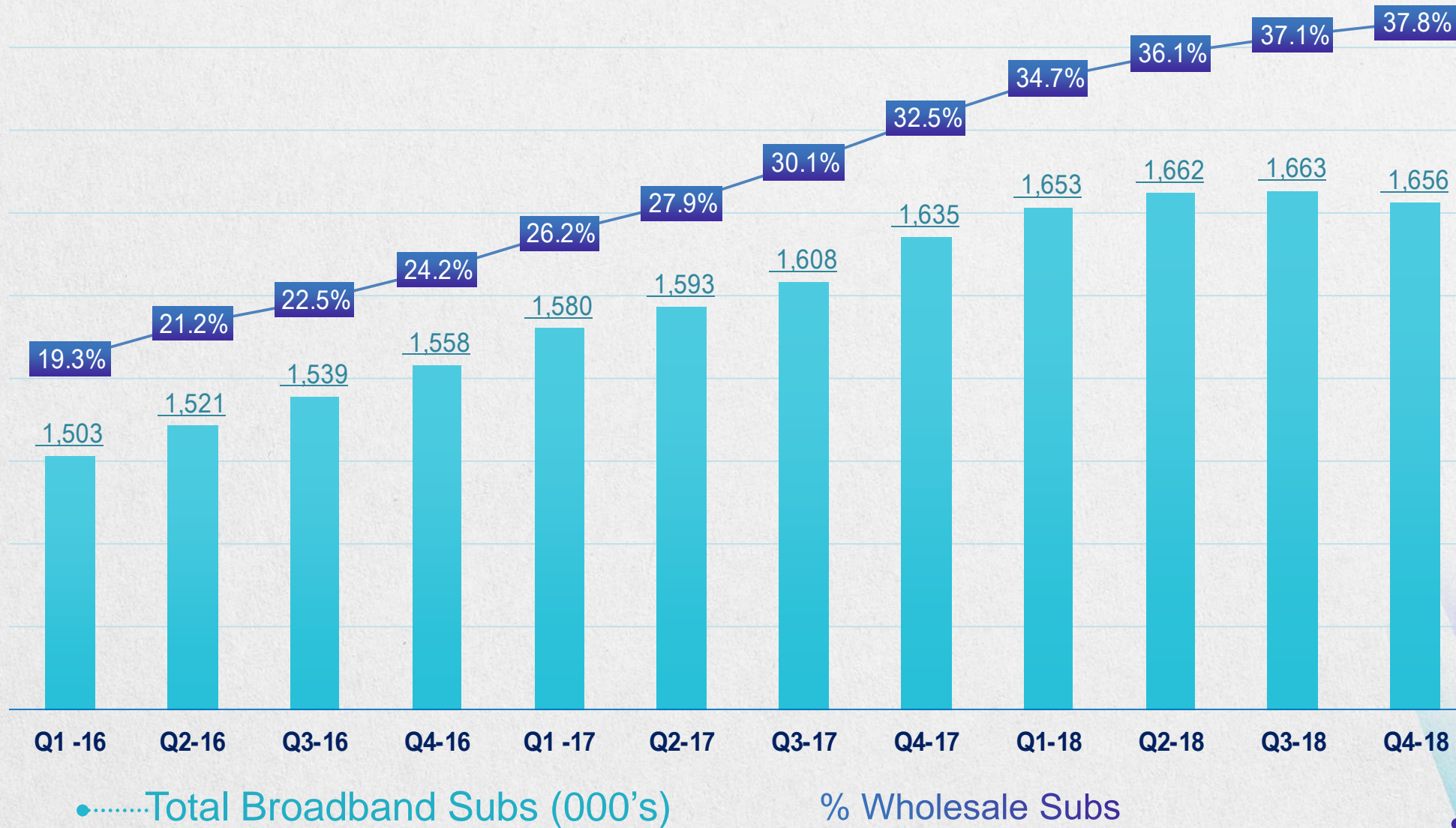
Subscribers (end of quarter, in thousands)



ARPU (NIS per month)



Broadband Internet Trends

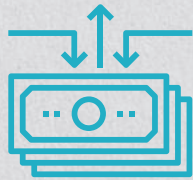


.....Total Broadband Subs (000's)

% Wholesale Subs

Financial Issues

Debt



Dividend Policy



2019 Guidance



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 a AA rating

- II. Reduce the level of financial debt and increase financial flexibility by extending average debt durations

- III. Operate with high cash balances

Change in Dividend Policy

- ▶ On March 27, 2019, the Company's Board of Directors resolved to cancel the Company's dividend distribution policy, which was recently updated on March 6, 2018. The decision was made from a position of clarity and transparency vis-a-vis shareholders and the circumstances that emerged due to the impossibility of distributing a dividend as a result of the expected failure to meet the "profit test" in the next two years. Accordingly, the Board of Directors decided that it would not be appropriate to maintain a dividend policy when in practice it is not effective
- ▶ The cancellation of the dividend policy will not prevent the Company's Board of Directors from examining from time to time the distribution of dividends to the Company's shareholders, taking into consideration, among other factors, the provisions of the law, the state of the Company's business and its capital structure, and the need to maintain a balance between ensuring the Company's financial strength and stability and the continued creation of value to the shareholders of the Company, all of which are subject to the approval of the general meeting of shareholders of the Company with respect to each specific distribution, as prescribed in the Company's Articles of Association

Bezeq Group - 2019 Guidance

Below is the Bezeq Group's outlook for 2019, based on the existing information known to the Bezeq Group today:

- ▶ **Net profit attributable to shareholders:** Approximately NIS 900 million - NIS 1.0 billion
- ▶ **EBITDA:** Approximately NIS 3.9 billion
- ▶ **CAPEX*:** Approximately NIS 1.7 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 of the provision for early retirement of employees and the signing of collective labor agreements in the Group, including the collective labor agreement with DBS (see immediate report dated March 14, 2019), 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, 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 2018.

The Company shall report, as required, deviations of more/less than 10% of the range and amounts stated in the forecast

**CAPEX - payments for investments in fixed and intangible assets*

Increase in Registered Share Capital

- ▶ The Board of Directors approved the convening of a general meeting of shareholders for which the agenda will include the approval of the increase of the Company's registered share capital by one billion shares of NIS 1 par value each, as a preliminary step towards a potential capital raising of NIS 1-2 billion through a rights offering, subject to the necessary decisions and approvals
- ▶ In so far as it is implemented, the rights issuance is expected to enable a faster reduction in debt, an improvement in coverage ratios, maintenance of a high credit rating, and financial flexibility for investment and operational activities, etc
- ▶ As of this date, the publication of a prospectus and the execution of funding has not yet been approved, and there is no certainty that capital will be raised and at what timing, structure or terms

Thank You

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



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