Press Release

BEZEQ GROUP REPORTS SECOND QUARTER 2020 FINANCIAL RESULTS

Tel Aviv, Israel – August 17, 2020 – Bezeq – The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), Israel's leading telecommunications provider, today announced its financial results for the three months ended June 30, 2020. Details regarding the investor conference call and webcast to be held today are included later in this press release.

Bezeq Group (consolidated)	Q2 2020	Q2 2019	% change
	(NIS millions)		
Revenues	2,155	2,224	(3.1%)
Operating profit	512	(94)	
EBITDA	977	384	154.4%
EBITDA margin	45.3%	17.3%	
Net profit	270	(1,573)	
Diluted EPS (NIS)	0.10	(0.57)	
Cash flow from operating activities	561	624	(10.1%)
Payments for investments	351	525	(33.1%)
Free cash flow [1]	144	350	(58.9%)
Net debt/Adjusted EBITDA [2]	2.3	2.5	

[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.

David Granot, Bezeq's Interim Chairman, stated, "In the second quarter, the Group produced strong financial results through systematic streamlining and development of its sources of revenue. The Group maintained its stability, despite the COVID-19 pandemic that created great uncertainty and challenges. Bezeq Fixed-Line posted growth in revenues for the first time in two years, along with an increase in the number of broadband subscribers. The subsidiaries also grew the number of subscribers and posted a significant increase in their aggregate profitability. Pelephone was the first in Israel to announce the launch of a 5G network after deploying antennae over the last few months. There has been significant progress in the fiber optic regulatory outline, bringing Bezeq Fixed-Line closer to the launch of the new infrastructure. All of this places the group in an excellent position to capture future market opportunities, while maintaining our technological and service advantages."

Yali Rothenberg, CPA, Bezeq Group's Chief Financial Officer commented, "The Group's strong financial results in the second quarter validate the strength of the Group operations, the diversification of sources of revenue and the ability to streamline expenses. Despite the challenges COVID-19 posed on the Israeli economy, the Group posted a year-over-year increase in adjusted EBITDA and adjusted net income. This achievement was possible thanks to a combination of an increase in Bezeq Fixed-

Line activities with continued efficiency in the subsidiaries. On the debt side, the positive trend continued as we decreased net debt by NIS 900 million and significantly improved the debt structure, enabling a high level of liquidity. We continued with the early repayment of debt, and will continue to enhance the group's financial strength in the coming quarters."

Coronavirus (COVID-19) Pandemic

Since the publication of the Annual Periodic Report, the coronavirus has continued to spread and its effects widened. This was reflected, among other things, in the imposition of various restrictions, including restrictions on civilian movement and assembly, on employment and on transport, and a significant contraction in economic activity.

Since the outbreak of the pandemic, the Group's companies have been working hard to maintain operational continuity to provide full services to its business and private customers and enable them to carry on, subject to government restrictions and guidelines. In addition, the Group companies have taken steps to deal with the risks arising from the pandemic, including lowering expenses and adjusting their operations according to the situation.

In this regard, it should be noted that telecommunications companies as a whole belong to the infrastructure sector, which is deemed as an essential sector by the government, and that the public and private sectors continue to rely on the companies' services in such events. The Company's exposure to risks arising from the crisis is therefore relatively limited and low compared to other sectors, while demand for some of the services provided by the Company has even grown as a result of the regulatory measures imposed due to the pandemic. In addition, although the COVID-19 pandemic has global and cross-sector implications, the telecommunications sector to which the Bezeq Group belongs is essentially local, being based on local infrastructure and on the provision of services mainly to the Israeli consumer market.

All that stated above regarding the telecommunications sector as a whole hold even more true for the majority of Bezeq activities, with the review performed by the Company indicating that most of the activities of the Group companies will not be materially affected, excluding primarily Pelephone's roaming services as elaborated below.

As of June 30, 2020, and as of the date of approval of the report, there was primarily a decrease in revenues from Pelephone's roaming services, as well as some decrease in revenues from the business sector in all the Group companies. The overall impact of the COVID-19 pandemic on the financial and business position of the Group companies was mixed, with the growth in Company operations along with the measures taken by the Group companies to counteract the effects of the pandemic offsetting most of the decrease in revenues from Pelephone's roaming services.

As of the date of the report, the Bezeq Group's working assumption with respect to the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue until the end of 2020, without significant economy-wide restrictions, and that the aviation and international tourism sectors will recover gradually in the course of 2021. Accordingly, and subject to the above assumptions, the Group expects the effects of the COVID-19 pandemic on its operations to be expressed primarily in a decline in Pelephone revenues from roaming services, as an outcome of the effects of the pandemic's spread on the aviation and international tourism sectors. In addition, a certain decline is foreseen in revenues of the Group companies from the business sector.

The possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among other things, in a decrease beyond our above estimates in revenues from roaming services and from sales of equipment for businesses as well as revenues from the business sector. The continuation or escalation of the pandemic may also affect revenues from sales of mobile end-user equipment, employee availability, customer service and technician service systems, supply chain operations and the amounts and times of collection from customers of the Group companies.

The Company estimates that its financial robustness, cash-generating capacity, high cash balances, strong debt structure and its ready access to the capital markets and credit providers will enable it to adequately deal with the effects of the pandemic and its possible continuation or worsening beyond the Group's assumptions. Furthermore, there are no financial covenants in any of the Company's various financing agreements as well as its public debentures.

Bezeq Group Results (Consolidated)

Revenues in the second quarter of 2020 were NIS 2.16 billion, compared to NIS 2.22 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 second quarter of 2020 were NIS 444 million, compared to NIS 489 million in the same quarter of 2019, a decrease of 9.2%.
The decrease in salary expenses was primarily due to a reduction in the number of employees in all key Group segments.

Operating expenses in the second quarter of 2020 were NIS 753 million, compared to NIS 814 million in the same quarter of 2019, a decrease of 7.5%.
The decrease in operating expenses was due to a reduction in expenses in Bezeq International and yes.

Other operating income, net in the second quarter of 2020 amounted to NIS 19 million, compared to NIS 414 million in the same quarter of 2019.
The decrease in other operating income was due to the recognition of capital gains of NIS 403 million from the sale of the "Sakia" complex in the corresponding quarter of 2019.

Depreciation, amortization and ongoing impairment expenses in the second quarter of 2020 were NIS 465 million, compared to NIS 478 million in the same quarter of 2019, a decrease of 2.7%.
The decrease in depreciation amortization and ongoing impairment expenses was due to a decrease in yes**,** Pelephone and Bezeq International, partially offset by an increase in Bezeq Fixed-Line.

The profitability metrics comparison to the corresponding quarter was impacted by three extraordinary items in the corresponding quarter of 2019:
1) A write-off of the balance of the tax asset in respect of losses from yes of NIS 1.166 billion
2) An impairment loss in Pelephone assets of NIS 951 million
3) Capital gains of NIS 403 million for the sale of the "Sakia" complex

Operating profit in the second quarter of 2020 amounted to NIS 512 million, compared to a loss of NIS 94 million in the same quarter of 2019.

EBITDA in the second quarter of 2020 amounted to NIS 977 million (EBITDA margin of 45.3%), compared to NIS 384 million (EBITDA margin of 17.3%) in the same quarter of 2019, an increase of 154.4%.

After adjusting for other operating income and impairment loss, **Adjusted EBITDA** in the second quarter of 2020 was NIS 958 million (Adjusted EBITDA margin of 44.5%) compared to NIS 921 million (Adjusted EBITDA margin of 41.4%) in the same quarter of 2019, an increase of 4.0%.

Financing expenses in the second quarter of 2020 were NIS 159 million, compared to NIS 136 million in the same quarter of 2019, an increase of 16.9%.
The increase in financing expenses was due to an increase in financing expenses in Bezeq Fixed-Line primarily as a result of fees relating to the early repayment of debt, partially offset by a decrease in interest expenses and linkage differentials due to changes in the CPI.

Net profit in the second quarter of 2020 amounted to NIS 270 million, compared to a loss of NIS 1.57 billion in the same quarter of 2019.
The increase in net profit was due to the aforementioned increase in operating profit as well as the write-off of the balance of the tax asset in respect of losses from yes in the corresponding quarter of 2019.

Cash flow from operating activities in the second quarter of 2020 was NIS 561 million, compared to NIS 624 million in the same quarter of 2019, a decrease of 10.1%.
The decrease in cash flow from operating activities was primarily due to changes in working capital in Bezeq Fixed-line.

Payments for investments in the second quarter of 2020 amounted to NIS 351 million, compared to NIS 525 million in the same quarter of 2019, a decrease of 33.1%.
The decrease in payments for investments was primarily due to a decrease in investments in Bezeq Fixed-Line due to payment of NIS 149 million for betterment levy in connection with the sale of the "Sakia" complex in the corresponding quarter of 2019. In addition, there was a decrease in investments in yes due to the migration to IP broadcasting.

Free cash flow in the second quarter of 2020 was NIS 144 million, compared to NIS 350 million in the same quarter of 2019, a decrease of 58.9%.
The decrease in free cash flow was due to net proceeds received of NIS 174 million relating to the sale of the "Sakia" complex (proceeds received less betterment levy paid) in the corresponding quarter of 2019. In addition, free cash flow was impacted by the aforementioned decrease in cash flow from operating activities.

Net financial debt of the Group was NIS 7.54 billion as of June 30, 2020 compared to NIS 8.42 billion as of June 30, 2019. As of June 30, 2020, the Group's net financial debt to Adjusted EBITDA ratio was 2.3, compared to 2.5 as of June 30, 2019.

2020 Outlook

The financial reports for the year 2019 and first quarter of 2020 did not include the Group's outlook for the year 2020, due to the COVID-19 pandemic, the restrictions imposed in connection with it and the resulting uncertainty in the economy. Although the uncertainty in the economy remains high, the Company decided to publish its outlook for 2020 based on current information and after a review of the Group's performance during the pandemic.

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

▶ Adjusted net profit* attributable to shareholders	NIS 950 million
▶ Adjusted EBITDA*	NIS 3.5 billion
▶ CAPEX**	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.

* 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.

Bezeq Fixed-Line Results

- Revenues grew for the first time in two years, reaching NIS 1.04 billion, y-o-y increase of 2.4%
- Increase in revenues from Internet services, cloud & digital and business services
- Retail broadband subscribers grew for the first time in 5 years reaching 991,000
- Continued streamlining initiatives with 3% y-o-y decrease in salary expenses
- Adjusted EBITDA grew 3.7% to NIS 680 million compared to NIS 656 million in the corresponding quarter
- Close to 500,000 customers signed up for BE routers and 200,000 customers for WIFI enhancers
- It seems that there has been significant progress in the regulatory efforts to approve Bezeq's fiber optic outline. Bezeq's entry into the field of fiber optics will have far-reaching effects on Bezeq and the entire Israeli economy

Dudu Mizrahi, Bezeq CEO, commented, "In the second quarter, we posted strong financial results, and for the first time in two years, recorded an increase in revenues that reached NIS 1.04 billion. The increase in revenues was attributable to growth in the private and business broadband sector as well as cloud and digital services. At the same time, for the first time in five years, we recorded an increase in the number of retail broadband subscribers, despite intensifying competition and severe regulatory restrictions that apply to the Company. We recently launched our new smart home service, which strengthens our customer premises strategy. As of today, nearly 500,000 customers have signed up for a Be router and 200,000 customers for WIFI enhancers."

Mizrahi added, "It seems that there has been significant progress in the regulatory efforts to approve Bezeq's fiber optic outline, and it will soon be submitted to the Government for approval. Our entry into the field of fiber optics will have far-reaching effects on Bezeq and the entire Israeli economy, and it will enable millions of customers throughout Israel to enjoy ultra-fast broadband and make the State of Israel a world leader in telecommunications infrastructure."

Revenues in the second quarter of 2020 were NIS 1.04 billion, compared to NIS 1.02 billion in the same quarter of 2019, an increase of 2.4%.
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 second quarter of 2020 were NIS 402 million, compared to NIS 396 million in the same quarter of 2019, an increase of 1.5%.

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

Revenues from telephony services in the second quarter of 2020 were NIS 258 million, compared to NIS 264 million in the same quarter of 2019, a decrease of 2.3%.
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 second quarter of 2020 were NIS 251 million, compared to NIS 238 million in the same quarter of 2019, an increase of 5.5%. The increase in revenues from transmission and data communication services was primarily due to an increase in revenues from transmission services for business customers, Bezeq's Biznet service (high speed Internet for businesses) as well as transmission services for Internet Service Providers.

Revenues from cloud & digital services in the second quarter of 2020 were NIS 70 million, compared to NIS 68 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 second quarter of 2020 were NIS 63 million compared to NIS 54 million in the same quarter of 2019, an increase of 16.7%**.** Revenues from other services was impacted by an increase in sales of cellular equipment.

Operating expenses in the second quarter of 2020 were NIS 140 million, compared to NIS 133 million in the same quarter of 2019, an increase of 5.3%. 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 as well as an increase in the provision for doubtful debts. 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 second quarter of 2020 were NIS 224 million, compared to NIS 231 million in the same quarter of 2019, a decrease of 3.0%.
The decrease in salary expenses was primarily due to the early retirement of employees.

Other operating income in the second quarter of 2020 amounted to NIS 2 million, compared to NIS 423 million in the same quarter of 2019.
The decrease in other operating income was due to the recognition of NIS 403 million in capital gains from the sale of the "Sakia" complex in the corresponding quarter of 2019.

Depreciation expenses in the second quarter of 2020 were NIS 218 million, compared to NIS 204 million in the same quarter of 2019, an increase of 6.9%.

Y-o-Y changes in profitability metrics were impacted by the aforementioned changes in other income.

Operating profit in the second quarter of 2020 amounted to NIS 464 million, compared to NIS 875 million in the same quarter of 2019, a decrease of 47.0%. **EBITDA** in the second quarter of 2020 was NIS 682 million (EBITDA margin of 65.3%), compared to NIS 1.08 billion (EBITDA margin of 105.8%) in the same quarter of 2019, a decrease of 36.8%.

After adjusting for the impact of other operating income, net, Adjusted EBITDA in the second quarter of 2020 was NIS 680 million (EBITDA margin of 65.1%), compared to NIS 656 million (EBITDA margin of 64.3%) in the same quarter of 2019, an increase of 3.7%.

Financing expenses in the second quarter of 2020 were NIS 163 million, compared to NIS 141 million in the same quarter of 2019, an increase of 15.6%.
The increase in financing expenses was primarily due to fees relating to the repayment of debt, partially offset by a decrease in interest expenses and linkage differentials due to changes in the CPI.

Net profit in the second quarter of 2020 amounted to NIS 229 million, compared to NIS 562 million in the same quarter of 2019, a decrease of 59.3%.
The decrease in net profit was primarily due to the aforementioned decrease in changes in other operating income.

Cash flow from operating activities in the second quarter of 2020 amounted to NIS 334 million, compared to NIS 416 million in the same quarter of 2019, a decrease of 19.7%.
The decrease in cash flow from operating activities was primarily due to changes in working capital.

Payments for investments in the second quarter of 2020 were NIS 201 million, compared to NIS 333 million in the same quarter of 2019, a decrease of 39.6%. The decrease in investments was due to payment of NIS 149 million for betterment levy in connection with the sale of the "Sakia" complex in the corresponding quarter of 2019.

Free cash flow in the second quarter of 2020 was NIS 126 million, compared to NIS 396 million in the same quarter of 2019, a decrease of 68.2%.
The decrease in free cash flow was due to net proceeds received of NIS 174 million relating to the sale of the "Sakia" complex (proceeds received less betterment levy paid) in the corresponding quarter of 2019. In addition, free cash flow was impacted by the aforementioned decrease in cash flow from operating activities.

The number of **broadband Internet lines** (retail and wholesale) at the end of the second quarter of 2020 totaled 1.57 million, an increase of 5,000 lines compared to the first quarter of 2020, and a decrease of 42,000 compared to the second quarter of 2019. The number of wholesale broadband Internet lines amounted to 580,000 lines, representing a sequential decrease of 4,000 lines.

During the second quarter of 2020, **average broadband speeds** reached 70.4 Mbps, compared to 69.1 sequentially, and 64.0 Mbps in the second quarter of 2019, representing a year-over-year increase of 10.0%.

Average revenue per Internet subscriber (ARPU - retail) in the second quarter of 2020 was NIS 98, in-line sequentially, and compared to NIS 97 in the second quarter of 2019.

The number of **telephony access lines** totaled 1.675 million at the end of the second quarter of 2020, compared to 1.693 million sequentially and 1.768 million at the end of the second quarter of 2019.

Average revenue per line (**ARPL**) in the second quarter of 2020 totaled NIS 51, compared to NIS 48 sequentially, and NIS 49 in the second quarter of 2019.

Bezeq Fixed-Line - Financial data	Q2 2020	Q2 2019	% change
	(NIS millions)		
Total revenues	1,044	1,020	2.4%
Broadband Internet revenues	402	396	1.5%
Telephony revenues	258	264	(2.3%)
Transmission and data revenues	251	238	5.5%
Cloud & digital services revenues	70	68	2.9%
Other revenues	63	54	16.7%
Operating profit	464	875	(47.0%)
EBITDA	682	1,079	(36.8%)
EBITDA margin	65.3%	105.8%	
Net profit [1]	229	562	(59.3%)
Cash flows from operating activities	334	416	(19.7%)
Payments for investments	201	333	(39.6%)
Free cash flow [2]	126	396	(68.2%)

[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	Q2 2020	Q1 2020	Q2 2019
Active subscriber lines (end of period, in thousands) [1]	1,675	1,693	1,768
Average monthly revenue per line (NIS) [2]	51	48	49
Outgoing minutes (millions)	1,079	883	865
Incoming minutes (millions)	1,293	1,120	1,056
Churn rate (%) [3]	2.7%	3.2%	2.7%
Total broadband Internet lines (retail and wholesale, end of period, in thousands)[4]	1,571	1,566	1,613
Wholesale broadband Internet lines (end of period, in thousands) [4]	580	584	612
Average monthly revenue per broadband Internet subscriber (NIS) - Retail [5]	98	98	97
Average broadband speed per subscriber (Mbps)	70.4	69.1	64.0

[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 second quarter of 2020 was marked by growth in subscribers, profitability and cash flow, despite the COVID-19 pandemic and its implications on revenues from mobile roaming services. The following are the key results of the subsidiary companies* for this quarter:

- Increase in profitability - operating profit of NIS 41 million and net profit of NIS 40 million, compared to NIS 15 million (operating and net profit) in the corresponding quarter of 2019
- Significant increase in free cash flow – NIS 27 million compared to negative free cash flow of NIS 44 million in the corresponding quarter
- Subscriber growth – yes for the second consecutive quarter and Pelephone for the fifth consecutive year
- Decrease in total operating expenses of NIS 134 million
- Pelephone will be the first Israeli mobile operator to launch 5G services in Israel subject to receipt of frequencies from the Ministry of Communications
- yes – 15% of its customers use IP broadcasting network
- ~50% of employees worked from home during Q2 2020

*Includes yes reported numbers

Ran Guron, CEO of Pelephone, Bezeq International and yes stated, "The operational merging of the subsidiary companies is showing significant results a year and a half after its start. This quarter we can see that the companies are profitable, generate positive cash flow and are steadily increasing the number of its subscribers. These positive results are due to significant streamlining measures that included the reduction of approximately 1,000 employees and the consolidation of interfaces such as company management, procurement processes, CRM project and more. The companies have proven their strength and stability during COVID-19, with fast and accurate operations as well as proper management of expenditures."

"At the same time, the companies continue to work to ensure the best service and network experience for their customers. We will be the first to launch 5G services in Israel after deploying the 3,500 frequency in mobile sites in recent months. This is a significant and important event. We are progressing with the transition to IP broadcasting in yes, and 15% of yes's customers have already moved to IP. We are pioneers in the TV field as well, and recently developed the first technological solution in the world that enables cancellation of the 'delay' in broadcasting. Bezeq International continues to lead in business services and develop real-time solutions for private and business customers."

Press Release

Pelephone Results

Revenues from services in the second quarter of 2020 were NIS 394 million, compared to NIS 430 million in 2019, a decrease of 8.4%.
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 the number of postpaid subscribers and an increase in revenues from incoming calls.

Revenues from equipment sales in the second quarter of 2020 were NIS 141 million, compared to NIS 140 million in the same quarter of 2019, an increase of 0.7%.
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 second quarter of 2020 were NIS 535 million, compared to NIS 570 million in the same quarter of 2019, a decrease of 6.1%.

Operating expenses in the second quarter of 2020 were NIS 543 million, compared to NIS 578 million in 2019, a decrease of 6.1%.

Operating loss in the second quarter of 2020 was NIS 8 million, in-line with the same quarter of 2019.

EBITDA in the second quarter of 2020 was NIS 143 million (EBITDA margin of 26.7%), compared to NIS 148 million (EBITDA margin of 25.9%) in the same quarter of 2019, a decrease of 3.4%.

Net profit in the second quarter of 2020 was NIS 1 million, compared to NIS 2 million in the same quarter of 2019.

Cash flow from operating activities in the second quarter of 2020 was NIS 149 million, compared to NIS 136 million in the same quarter of 2019, an increase of 9.6%.

Free cash flow in the second quarter of 2020 was NIS 28 million, compared to NIS 8 million in the same quarter of 2019, an increase of 250.0%.

Pelephone's subscriber base increased by 9,000 subscribers in the second quarter of 2020 and total subscribers were 2.376 million at the end of June 2020.

Average revenue per subscriber (ARPU) in the second quarter of 2020 was NIS 55, compared to NIS 58 in the sequential quarter, and NIS 64 in the same quarter of 2019. The decrease in ARPU was primarily due to the impact of the COVID-19 pandemic on roaming revenues.

Pelephone - Financial data	Q2 2020	Q2 2019	% change
	(NIS millions)		
Total revenues	535	570	(6.1%)
Service revenues	394	430	(8.4%)
Equipment revenues	141	140	0.7%
Operating loss	(8)	(8)	
EBITDA	143	148	(3.4%)
EBITDA margin	26.7%	25.9%	
Net profit (loss)	1	2	
Cash flows from operating activities	149	136	9.6%
Payments for investments	73	83	(12.0%)
Free cash flow [1]	28	8	250.0%

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

Pelephone - KPIs	Q2 2020	Q1 2020	Q2 2019
Total subscribers (end of period, in thousands) [1]	2,376	2,367	2,263
Postpaid subscribers (end of period, in thousands) [1]	1,959	1,939	1,866
Prepaid subscribers (end of period, in thousands) [1]	417	428	397
Average revenue per user (ARPU, NIS) [2]	55	58	64
Churn rate [3]	6.8%	7.1%	7.5%

[1] Subscriber data includes Pelephone subscribers (excluding subscribers of operators that Pelephone hosts on its netw ork as w ell as IOT subscribers) and do not include inactive subscribers w ho are connected to Pelephone's services for six months or more. An inactive subscriber is one w ho 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 w hich 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 w ho use different services (such as data for car media systems), w hose average revenue is significantly low er 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 w ho use Pelephone's netw ork, and repair and w arranty services in the period by average Pelephone active subscribers in the same period.

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

Bezeq International Results

Revenues in the second quarter of 2020 were NIS 314 million compared to NIS 339 million in the same quarter of 2019, a decrease of 7.4%.
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 in the second quarter of 2020 were NIS 288 million, compared to NIS 322 million in the same quarter of 2019, a decrease of 10.6%.
The decrease in operating expenses was primarily due to a decrease in equipment and licensing expenses for businesses as well as international call expenses, in line with a reduction in revenues. In addition, there was a reduction in salary expenses due to a decrease in the number of employees as part of its streamlining plan as well adjustments to estimates in the corresponding period.

Operating profit in the second quarter of 2020 was NIS 26 million, compared to NIS 17 million in the same quarter of 2019, an increase of 52.9%. **EBITDA** in the second quarter of 2020 amounted to NIS 71 million (EBITDA margin of 22.6%), compared to NIS 63 million (EBITDA margin of 18.6%) in the same quarter of 2019, an increase of 12.7%.

Net profit in the second quarter of 2020 was NIS 21 million, compared to NIS 10 million in the same quarter of 2019 an increase of 110.0%.

Cash flow from operating activities in the second quarter of 2020 was NIS 48 million, in-line with the same quarter of 2019.

Free cash flow in the second quarter of 2020 was NIS 7 million compared to NIS 6 million in the same quarter of 2019, an increase of 16.7%.

Bezeq International	Q2 2020	Q2 2019	% change
	(NIS millions)		
Revenues	314	339	(7.4%)
Operating profit	26	17	52.9%
EBITDA	71	63	12.7%
EBITDA margin	22.6%	18.6%	
Net profit	21	10	110.0%
Cash flows from operating activities	48	48	
Payments for investments	33	34	(2.9%)
Free cash flow [1]	7	6	16.7%

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

yes Results

Revenues in the second quarter of 2020 were NIS 319 million, compared to NIS 337 million the same quarter of 2019, a decrease of 5.3%.
The decrease in revenues was primarily due to a reduction in the average revenue per subscriber, resulting from, among other factors, a decrease in revenues from sports broadcasting due to the COVID-19 pandemic, partially offset by an increase in revenues from content services (pay per view, and other).

Operating expenses in the second quarter of 2020 were NIS 296 million, compared to NIS 361 million in the same quarter of 2019, a decrease of NIS 65 million (a decrease of 18.0%).
Operating expenses were impacted by a decrease in salary expenses due to streamlining measures enacted as part of yes's efficiency plan.

Operating profit in the second quarter of 2020 was NIS 23 million, compared to a loss of NIS 24 million in the same quarter of 2019.

EBITDA in the second quarter of 2020 amounted to NIS 73 million (EBITDA margin of 22.9%), compared to NIS 44 million (EBITDA margin of 13.1%) in the same quarter of 2019, an increase of 65.9%.

Net profit in the second quarter of 2020 was NIS 18 million, compared to a loss of NIS 27 million in the same quarter of 2019.
The increase in profitability metrics was due to the decrease in salary and operating expenses.

Cash flow from operating activities in the second quarter of 2020 was NIS 39 million, compared to NIS 22 million in the same quarter of 2019, an increase of 77.3%.

Negative free cash flow in the second quarter of 2020 was NIS 8 million, compared to NIS 58 million in the same quarter of 2019 an improvement of NIS 50 million.

ARPU in the second quarter of 2020 was NIS 190, compared to NIS 195 sequentially and NIS 197 in the same quarter of 2019.

The number of yes **subscribers** in the second quarter of 2020 increased by 1,200 and reached 557,000 at June 30, 2020.

yes - Financial data	Q2 2020	Q2 2019	% change
	(NIS millions)		
Revenues	319	337	(5.3%)
Operating profit (loss)	23	(24)	
EBITDA	73	44	65.9%
EBITDA margin	22.9%	13.1%	
Net profit (loss)	18	(27)	
Cash flows from operating activities	39	22	77.3%
Payments for investments	41	74	(44.6%)
Free cash flow [1]	(8)	(58)	86.2%

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

yes - KPIs	Q2 2020	Q4 2019	Q2 2019
Number of subscribers (end of period, in thousands) [1]	557	556	565
Average revenue per user (ARPU, NIS) [2]	190	195	197
Churn rate (%) [3]	4.8%	5.9%	4.9%

[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.

Conference Call & Webcast Information

Bezeq will conduct a conference call hosted by Mr. David Granot, Bezeq's Interim Chairman, Mr. Dudu Mizrahi, Bezeq CEO, Mr. Ran Guron, CEO of Pelephone, Bezeq International and yes, and Mr. Yali Rothenberg, Bezeq Group Chief Financial Officer on August 17, 2020, at 3:00 PM Israel Time / 8:00 AM Eastern Time. Participants may join the live conference call by dialing:

International Phone Number: + 972-3-918-0610
Israel Phone Number: 03-918-0610

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, August 21, 2020. Participants can access and listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5904
Israel Phone Number: 03-925-5904

Press Release

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

	Six months ended June 30		Three months ended June 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	**4,342**	4,480	**2,155**	2,224	8,929
Costs of activity					
General and operating expenses	**1,546**	1,626	**753**	814	3,263
Salaries	**923**	981	**444**	489	1,933
Depreciation, amortization, and impairment losses	**917**	944	**465**	478	1,912
Other operating income, net	**(22)**	(439)	**(19)**	(414)	(221)
Impairment loss	**-**	951	**-**	951	1,053
Total operating expenses	**3,364**	4,063	**1,643**	2,318	7,940
Operating profit (loss)	**978**	417	**512**	(94)	989
Financing expenses (income)					
Financing expenses	**220**	262	**169**	149	624
Financing income	**(27)**	(27)	**(10)**	(13)	(75)
Financing expenses, net	**193**	235	**159**	136	549
Profit (loss) after financing expenses, net	**785**	182	**353**	(230)	440
Share in losses of equity-accounted investees	**-**	(1)	**-**	(1)	(2)
Profit (loss) before income tax	**785**	181	**353**	(231)	438
Income tax	**183**	1,454	**83**	1,342	1,525
Profit (loss) for the period	**602**	(1,273)	**270**	(1,573)	(1,087)
Basic earnings (loss) per share (in NIS)	**0.22**	(0.46)	**0.10**	(0.57)	(0.39)

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Financial Position

	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	**708**	971	400
Investments	**1,221**	1,944	1,195
Trade receivables	**1,701**	1,744	1,689
Other receivables	**303**	288	313
Inventory	**110**	100	93
Assets held for sale	**46**	-	43
Total current assets	**4,089**	5,047	3,733
Trade and other receivables	**454**	535	477
Broadcasting rights, net of rights exercised	**65**	59	59
Right-of-use assets	**1,314**	1,394	1,292
Fixed assets	**6,130**	6,245	6,096
Intangible assets	**951**	977	935
Deferred expenses and non-current investments	**381**	465	386
Deferred tax assets	**37**	12	59
Total non-current assets	**9,332**	9,687	9,304
Total assets	**13,421**	14,734	13,037

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Financial Position (Contd.)

	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	**955**	1,625	1,007
Current maturities of liabilities for leases	**399**	434	416
Trade and other payables	**1,348**	1,427	1,413
Employee benefits	**486**	443	654
Provisions	**122**	148	125
Current tax liabilities	**46**	20	-
Total current liabilities	**3,356**	4,097	3,615
Loans and debentures	**8,517**	9,709	8,551
Liability for leases	**1,017**	1,022	969
Employee benefits	**344**	487	356
Derivatives and other liabilities	**176**	163	139
Liabilities for deferred taxes	**46**	53	43
Provisions	**50**	39	49
Total non-current liabilities	**10,150**	11,473	10,107
Total liabilities	**13,506**	15,570	13,722
Total equity	**(85)**	(836)	(685)
Total liabilities and equity	**13,421**	14,734	13,037

"Bezeq" The Israel Telecommunication Corp., Limited

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended June 30		Three months ended June 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	**602**	(1,273)	**270**	(1,573)	(1,087)
Adjustments:					
Depreciation, amortization, and impairment losses	**917**	944	**465**	478	1,912
Impairment loss of assets	**-**	951	**-**	951	1,053
Share in losses of equity-accounted investees	**-**	1	**-**	1	2
Financing expenses, net	**209**	224	**139**	128	497
Capital loss (gain), net	**(5)**	(461)	**4**	(417)	(508)
Income tax expenses	**183**	1,454	**83**	1,342	1,525
Change in trade and other receivables	**(33)**	18	**(2)**	46	91
Change in inventory	**(23)**	(9)	**1**	-	(16)
Change in trade and other payables	**(148)**	(176)	**(232)**	(185)	(113)
Change in provisions	**(3)**	(27)	**(3)**	3	(49)
Change in employee benefits	**(166)**	(98)	**(78)**	(52)	(50)
Change in other liabilities	**(7)**	(6)	**-**	6	(8)
Net income tax paid	**(86)**	(153)	**(86)**	(104)	(325)
Net cash from operating activities	**1,440**	1,389	**561**	624	2,924

"Bezeq" The Israel Telecommunication Corp., Limited

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

	Six months ended June 30		Three months ended June 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	**(482)**	(551)	**(238)**	(281)	(1,095)
Investment in intangible assets and deferred expenses	**(207)**	(198)	**(113)**	(95)	(382)
Investment in bank deposits and securities	**(972)**	(1,780)	**(462)**	(669)	(2,067)
Proceeds from bank deposits and sales of securities	**951**	1,237	**351**	71	2,297
Proceeds from the sale of fixed assets	**28**	49	**20**	18	76
Receipts on account of sale of the Sakia complex	**-**	328	**-**	323	328
Payment of permit fees, betterment levy, and purchase tax for the Sakia complex	**-**	(149)	**-**	(149)	(74)
Refund of betterment tax on account of the sale of the Sakia complex	**-**	5	**-**	-	5
Miscellaneous	**10**	10	**4**	1	29
Net cash used in investing activities	**(672)**	(1,049)	**(438)**	(781)	(883)

"Bezeq" The Israel Telecommunication Corp., Limited

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

	Six months ended June 30		Three months ended June 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**	500	**718**	500	1,865
Repayment of debentures and loans	**(769)**	(362)	**(769)**	(362)	(3,447)
Payments of principal and interest for leases	**(199)**	(207)	**(86)**	(90)	(414)
Interest paid	**(159)**	(190)	**(154)**	(185)	(392)
Costs for early repayment of loans and debentures	**(51)**	-	**(51)**	-	(93)
Miscellaneous	**-**	-	**-**	-	(50)
Net cash used for financing activities	**(460)**	(259)	**(342)**	(137)	(2,531)
Increase (decrease) in cash and cash equivalents, net	**308**	81	**(219)**	(294)	(490)
Cash and cash equivalents at beginning of period	**400**	890	**927**	1,265	890
Cash and cash equivalents at end of period	**708**	971	**708**	971	400

"Bezeq" The Israel Telecommunication Corp., Limited

Other Operating Expenses (Income), Net

	Six months ended June 30		Three months ended June 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	**5**	461	**(4)**	417	508
Proceeds from settlement agreements	**9**	-	**9**	-	-
Cancellation (recognition) of provision for early retirement in Pelephone, Bezeq International and yes	**5**	(45)	**5**	-	(167)
Cancellation (recognition) of provision for early retirement in Bezeq	**-**	24	**5**	(1)	(109)
Cancellation (recognition) of provision for legal claims	**2**	(1)	**3**	(2)	(10)
Others	**1**	-	**1**	-	(1)
Total operating income (expenses), net	**22**	439	**19**	414	221

"Bezeq" The Israel Telecommunication Corp., Limited

Financing Expenses, Net

	Six months ended June 30		Three months ended June 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	**145**	174	**72**	89	349
Costs for early repayment of loans and debentures	**51**	-	**51**	-	93
Linkage and exchange rate differences	**6**	36	**4**	31	43
Financing expenses for lease commitments	**14**	13	**7**	7	29
Other financing expenses	**4**	3	**2**	1	12
Financing expenses for employee benefits	**-**	30	**29***	18	89
Change in fair value of financial assets	**-**	6	**4**	3	9
Total financing expenses	**220**	262	**169**	149	624
Income from credit in sales	**15**	15	**7**	7	29
Change in fair value of financial assets	**3**	-	**-**	-	-
Other financing income	**9**	12	**3**	6	32
Income from debenture exchange	**-**	-	**-**	-	14
Total financing income	**27**	27	**10**	13	75
Total financing expenses, net	**193**	235	**159**	136	549

*Includes NIS 28 million of financing expenses due to the update of the discount rate according to which the defined benefit obligations are calculated as well as the employee retirement obligation as of June 30, 2020.