

BEZEQ

Q1 2019 INVESTOR PRESENTATION

May 30, 2019

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Bezeq - Largest Telecom Group in Israel (Q1 2019)



Q1 19 Revenues of
NIS 2.3 billion



Q1 19 EBITDA of
NIS 977 million



1.8 million fixed
access lines



Rating AA.il



568,000 Pay-TV
customers



1.6 million
broadband lines



2.2 million
cellular
subscribers

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

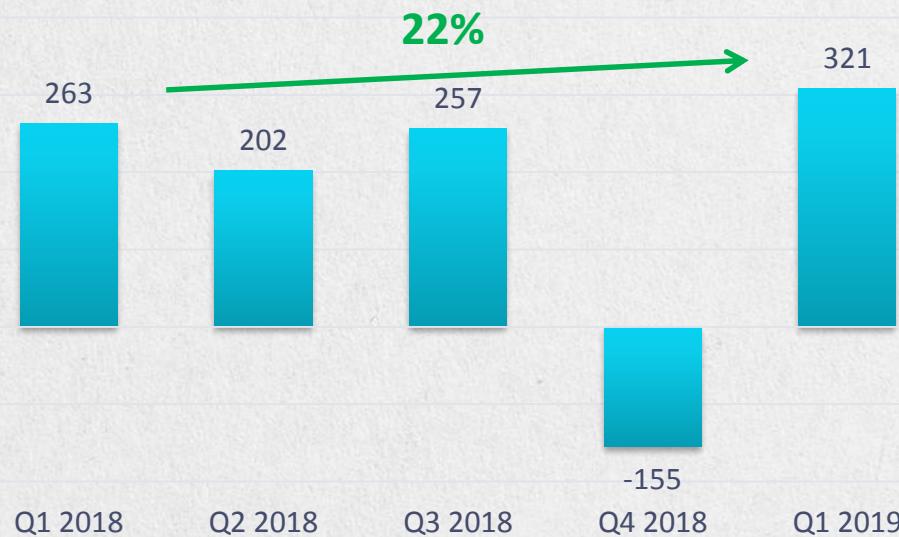
- ▶ Significant decisions on all core issues of the Group for coming years - investment in ultra-fast Internet infrastructure; deployment of 5G; migration from satellite to IP-based broadcasting platform
- ▶ Maintaining Bezeq as a strong and financially sound company
- ▶ Business oriented examination - 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**

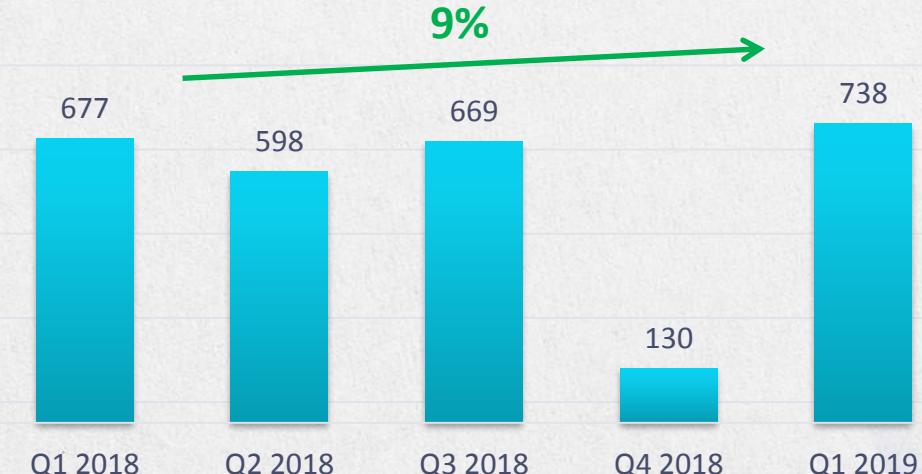
Bezeq Fixed-Line

Bezeq Fixed-Line – Increased Profitability in Q1 2019

Net Profit (NIS m)

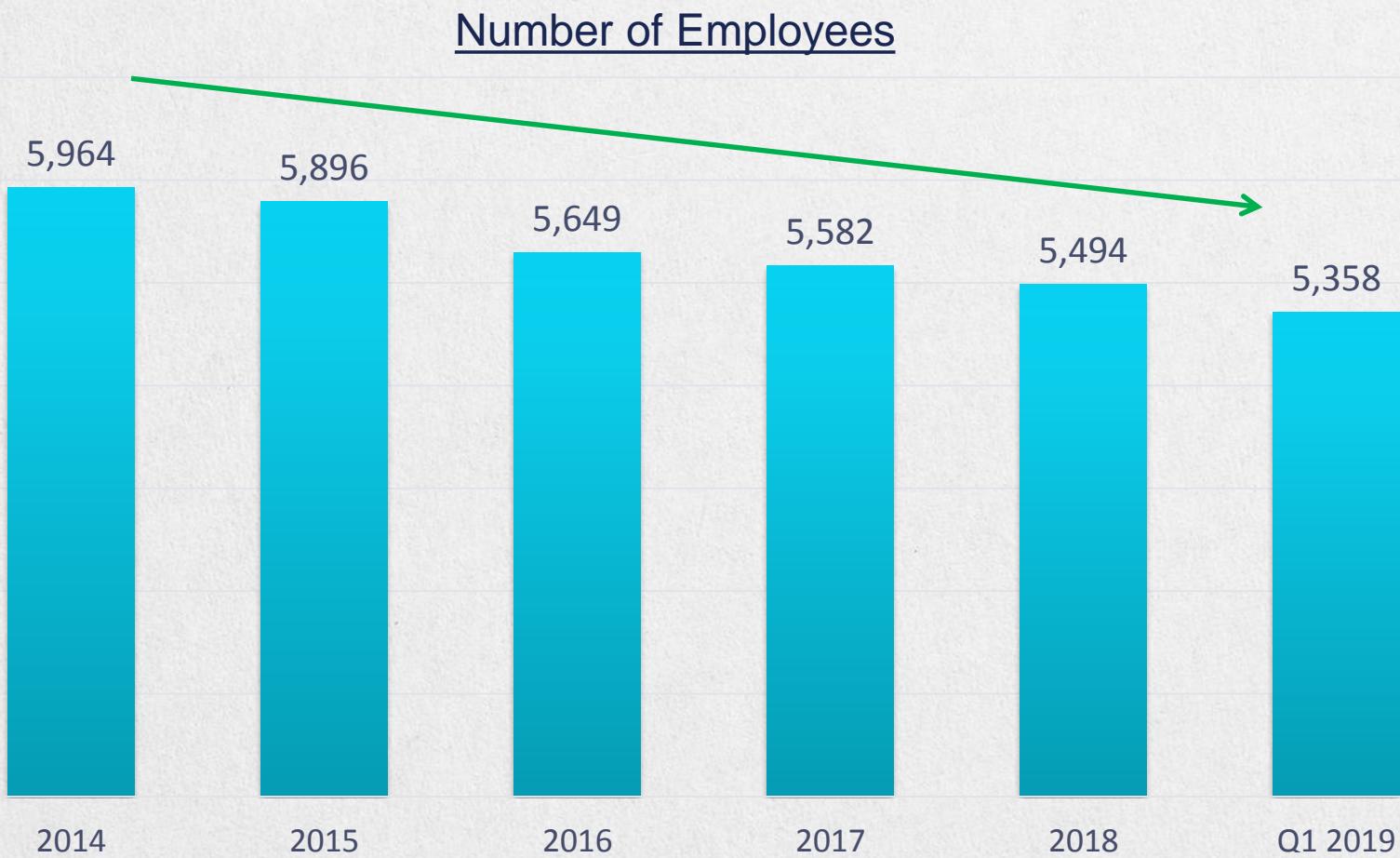


EBITDA (NIS m)



Bezeq Fixed-Line – Q1 2019 Actions Taken

Retirement of 136 Employees



Bezeq Fixed-Line – Q1 2019 Actions Taken

- ▶ **Focus on Customer Premises** – Continued strong sales of Bspot service and BE router
- ▶ **Marketing of Terminal Equipment** – Beginning of operations in Q1 2019
- ▶ **Real estate sales** –
 - ▶ Capital gains from the sale of real estate of NIS 44 million
 - ▶ Receipt of total balance owed the Company (NIS 377 million) from the “Sakia” transaction in May 2019. The capital gain, which is expected to be recorded in Q2 2019, will range from NIS 250 – 450 million depending on whether the Company will be obliged to pay the full demand for permit fees and improvement levy

Subsidiaries

yes.



Bezeq
International



Pelephone



Bezeq

Pelephone - Subscriber Growth

Postpaid Subscribers* (in thousands)



Continued growth in number of subscribers for more than three consecutive years

*After adjusting for the disconnection and write off of CDMA subscribers in Q2-16 and Q2-17

Pelephone - Streamlining of Expenses

Total Operating Expenses (NIS m)



Salary Expenses (NIS m)



5% y-o-y decrease in operating expenses in Q1 2019

6% y-o-y decrease in salary expenses in Q1 2019

Pelephone – Continuing to Accelerate

Pelephone has the widest deployment of MIMO 4X4 and Beam Forming technologies 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 International - Leading ISP in Israel

- Innovative infrastructures
- Significant player in the ICT and business market
- Advanced IP services



- Continues to benefit from competitive advantages
- Operates high quality infrastructure including ownership of submarine cable

Bezeq International - Wide Range of Services

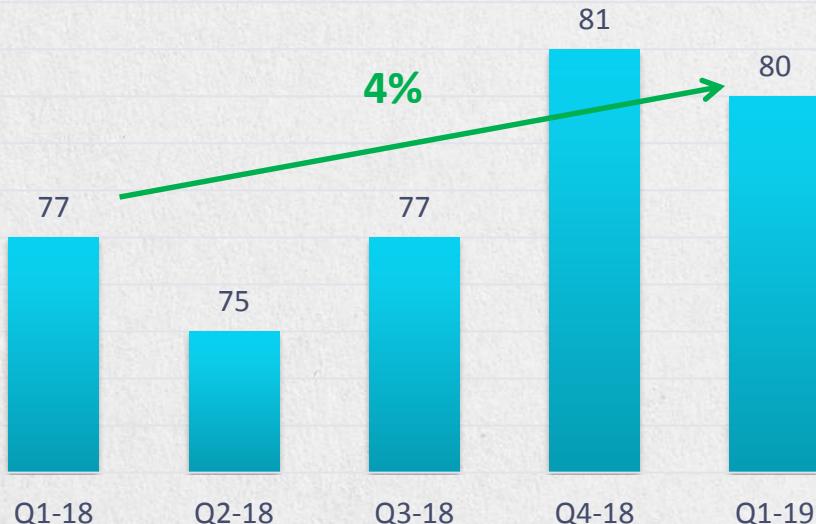


- ▶ Growth engines: Cyber; a wide range of solutions, cloud solutions for businesses; DR, storage and backup
- ▶ Business integration for a wide circle of customers in the business and public sectors (many of them over the years)
- ▶ Server farms and managed services
 - ▶ Wide distribution of data centers
 - ▶ Expand 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

Bezeq International – Stable Profitability in a Competitive Mkt

EBITDA (NIS m)



Net Profit (NIS m)



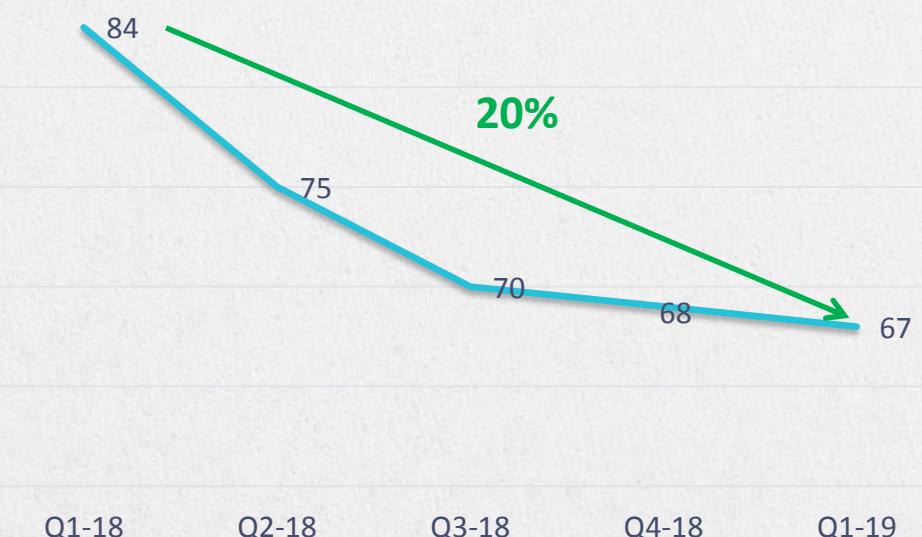
Stable net profit and EBITDA driven by wide range of business solutions offset increased competition in the ILD and ISP businesses

Bezeq International – Streamlining of Expenses

Total Operating Expenses (NIS m)



Salaries (NIS m)



4% y-o-y decrease in total operating expenses in Q1 2019
20% y-o-y decrease in salary expenses in Q1 2019

yes.

yes - Israel's Favorite Content Brand*



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



Leading Content:
Original, diverse and
high quality;
Top class international
content



Quality viewing
experience



Brand with the highest
customer satisfaction



*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

Bezeq

17

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

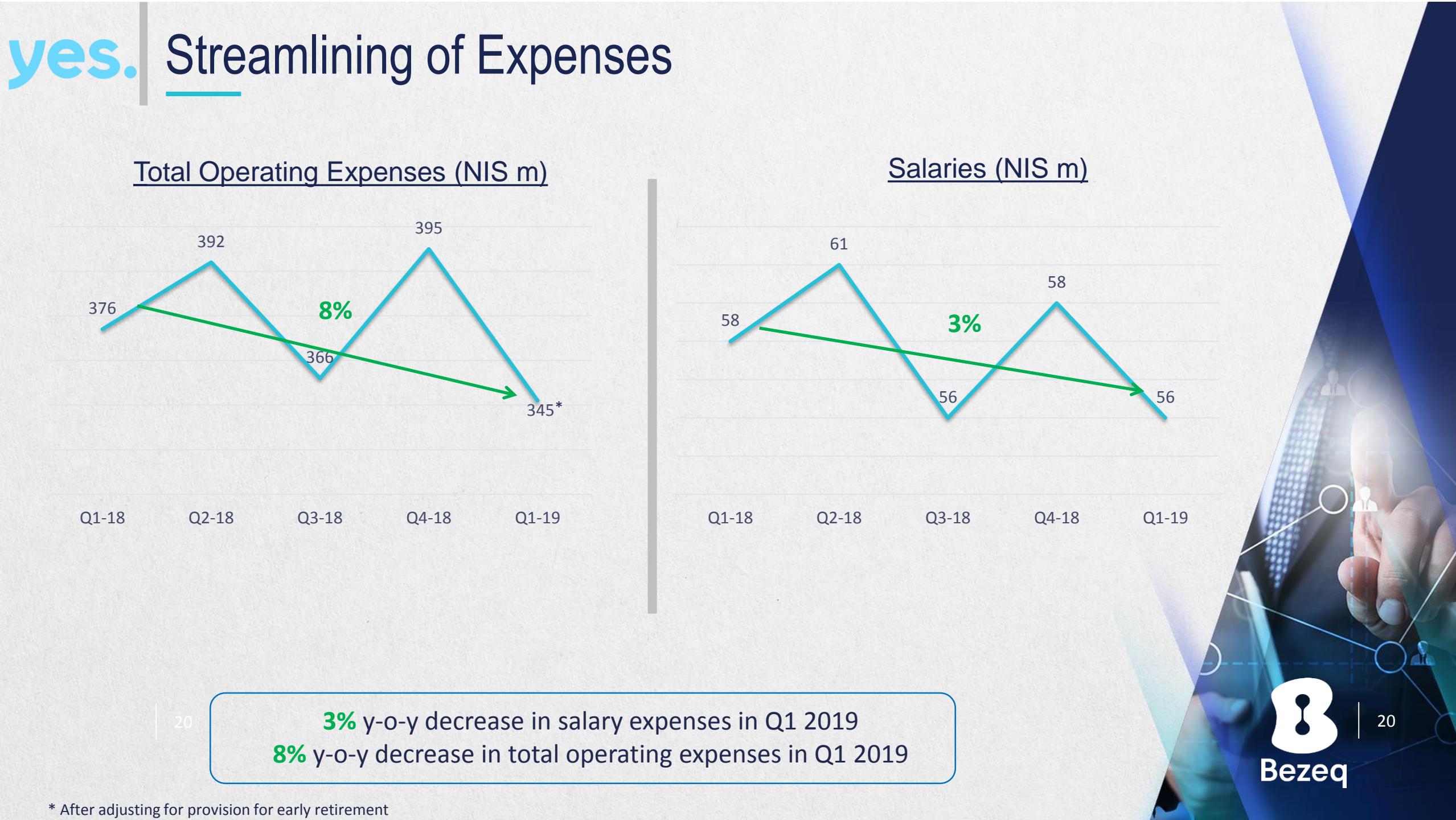
- ▶ Over the next few years, yes will gradually replace set top boxes until full transition to IP service
 - ▶ The fixed cost for satellite infrastructure will be replaced by the use of the Group's infrastructures
 - ▶ Logistical flexibility and decreased expenses - acquisition of set top boxes, installation and service costs
 - ▶ Shelf STBs to replace tailor made - flexible operating system for the customer

* For additional information, see immediate report in March 2019

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

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





Subsidiary companies – Decrease in Salaries (NIS m)



10% y-o-y decrease in salary expenses in Q1 2019

Maximize Synergies in Subsidiaries - Pelephone, yes, Bezeq International

Plan

Adapt 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 (by operating joint IT systems)

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

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

Streamline salaries and other operating expenses driven by improved processes and joint purchasing

Maximizing Synergies in Subsidiaries - Pelephone, yes, Bezeq International

Actions Taken

Transition to integrated management team -

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

Restructured hundreds of employees in 2H 2018 and Q1 2019

Significant savings in operating expenses

Financial savings due to joint purchasing

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

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

23

Q1 2019 Financial Results



Bezeq Group – Revenues | (NIS millions)



Bezeq Group – Salaries | (NIS millions)



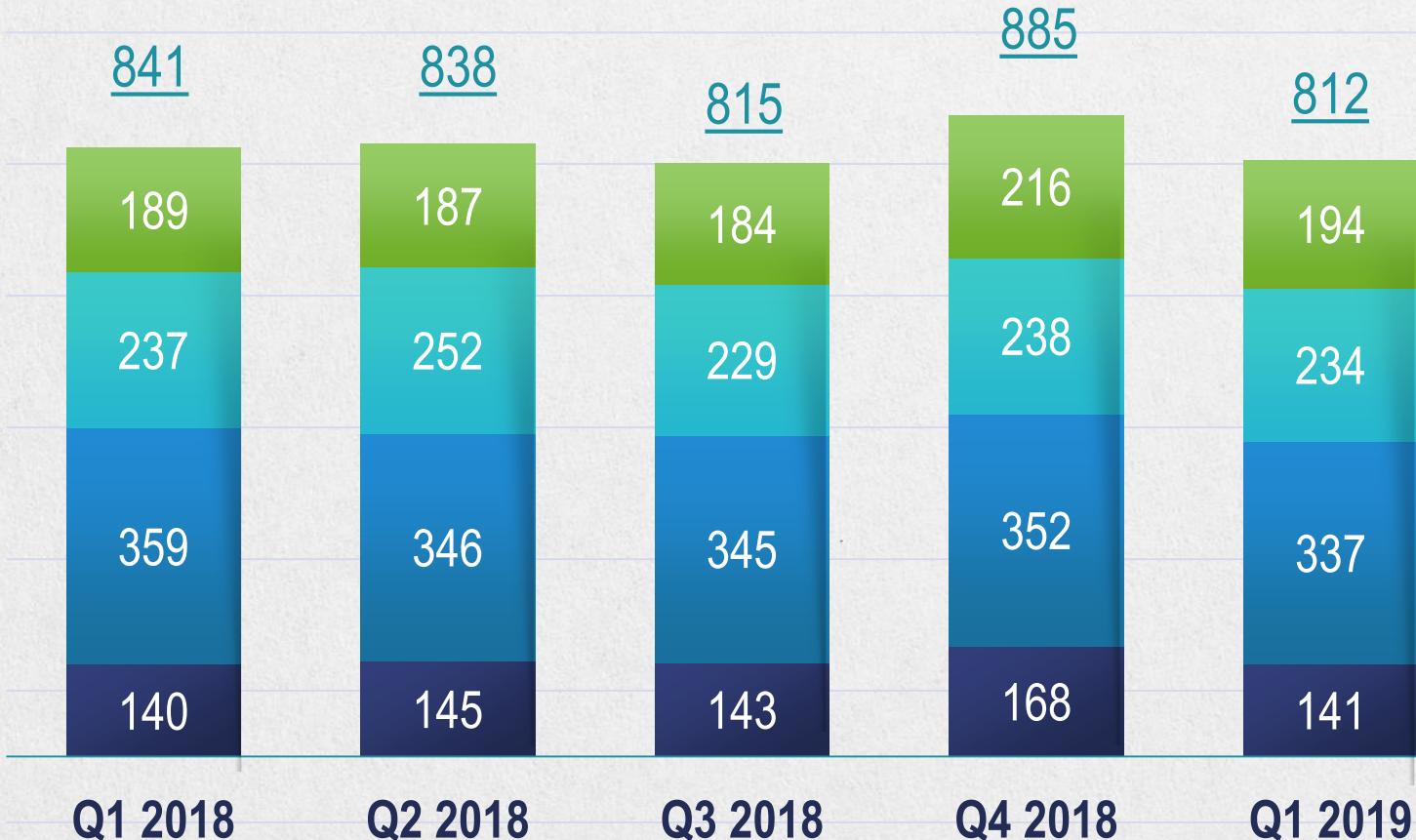
yes.



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



yes.

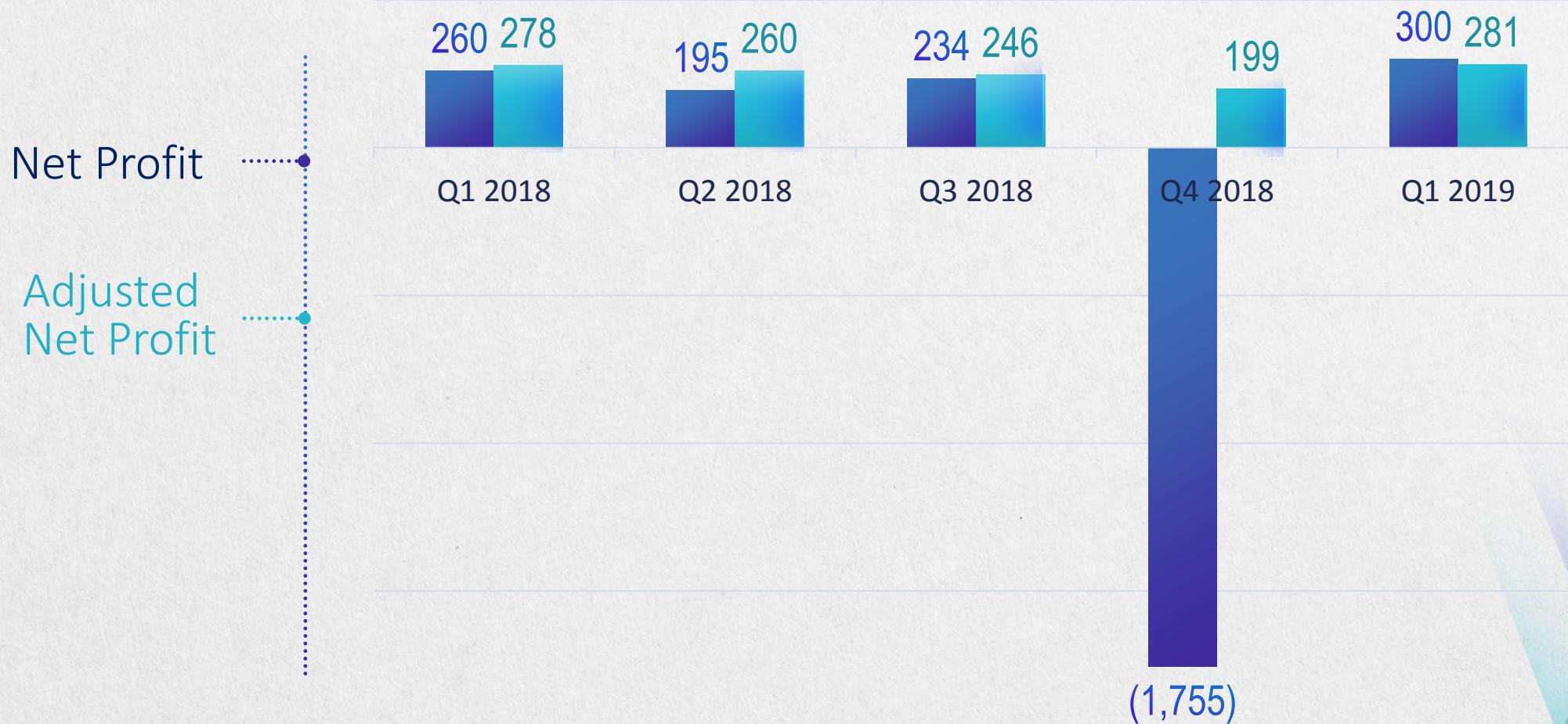


Bezeq Group - ADJUSTED EBITDA* | (NIS millions)



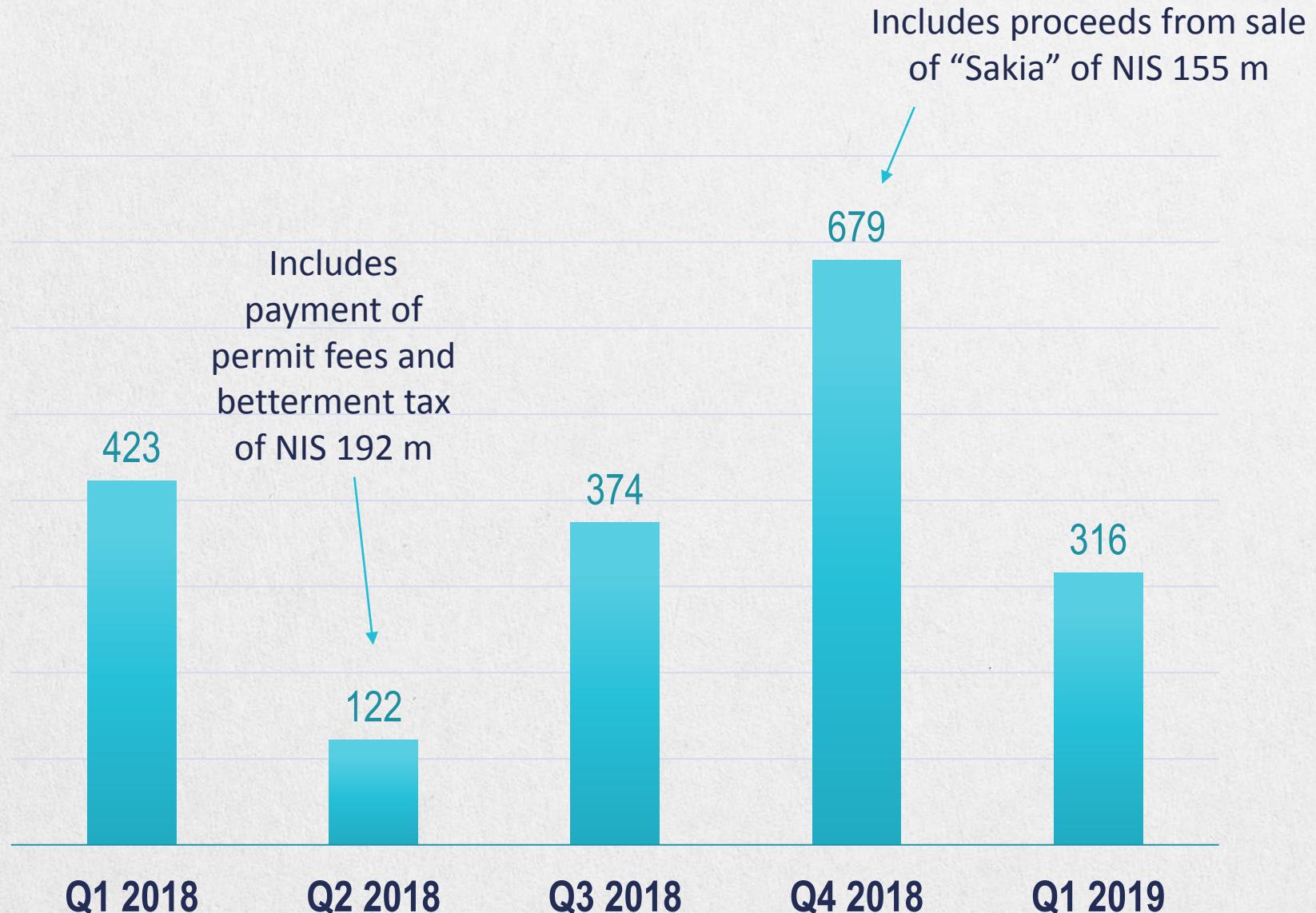
*EBITDA adjusted for other expenses/income, net and ongoing losses from impairment of fixed and intangible assets.

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



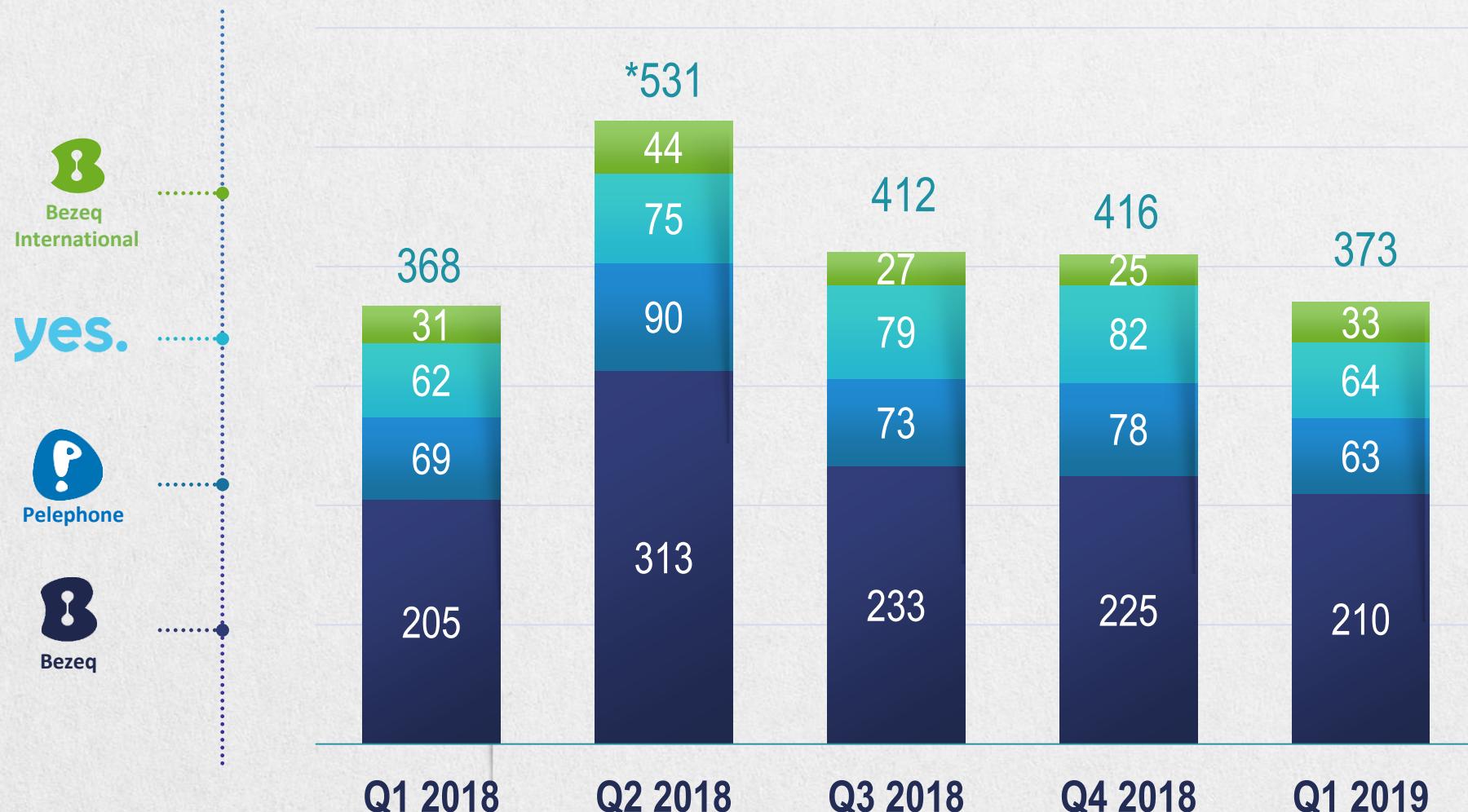
*Adjusted for other expenses/income, net

Bezeq Group - Free Cash Flow | (NIS millions)



Bezeq Group - CAPEX | (NIS millions)

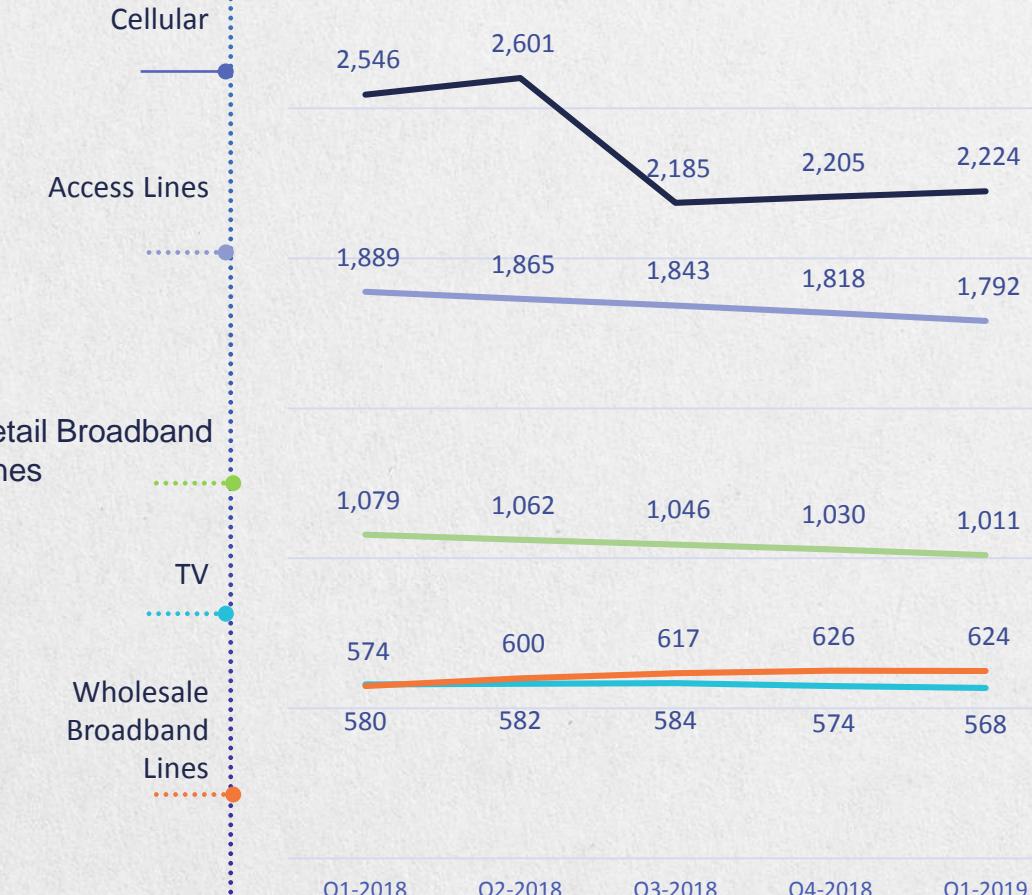
Continued investments will maintain the future leadership and operational efficiency of the Bezeq Group



*Includes payment of NIS 112 million for permit fees in connection with the "Sakia" transaction

Bezeq Group - KPIs

Subscribers (end of quarter, in thousands)



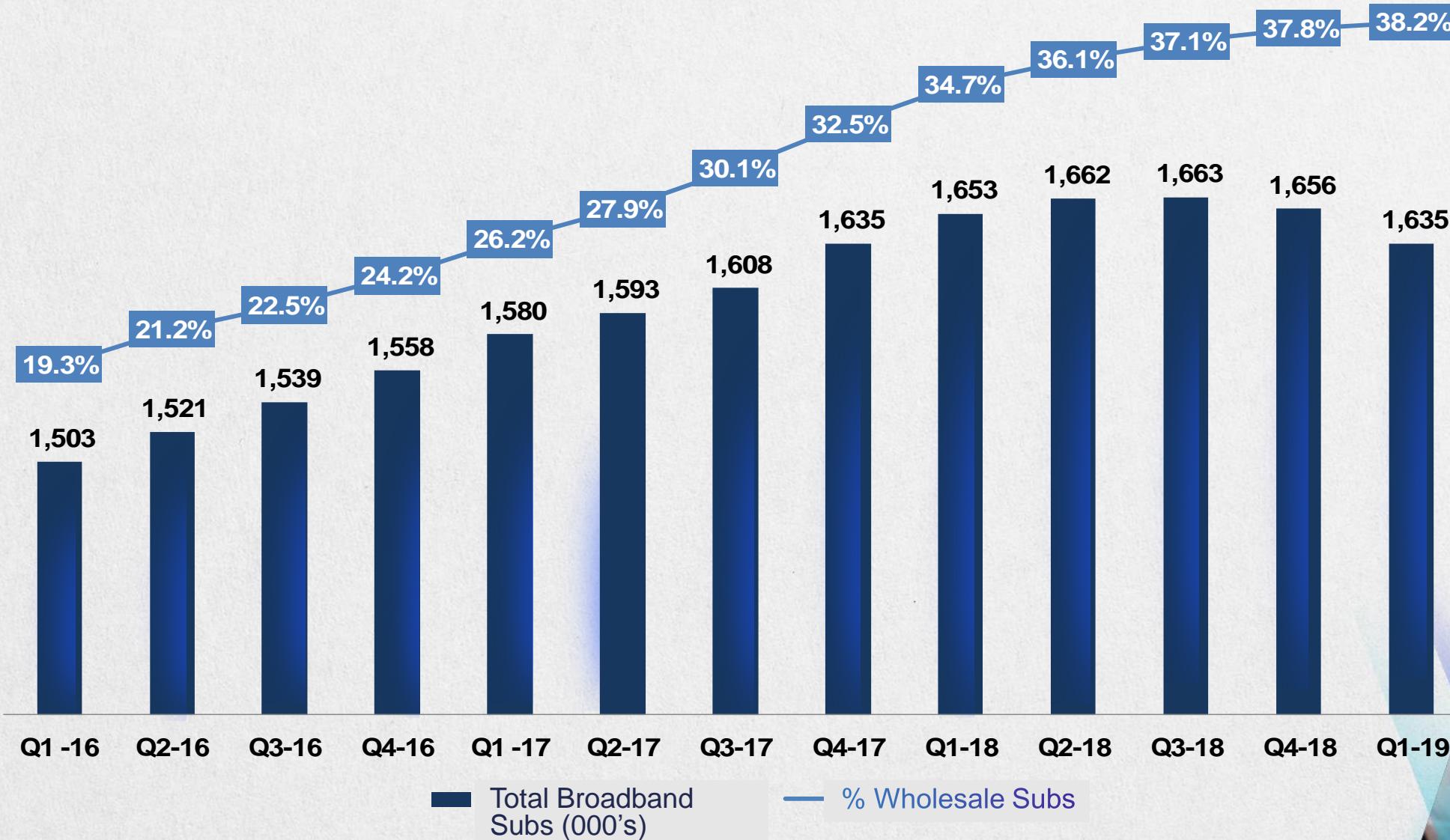
ARPU (NIS per month)



Bezeq

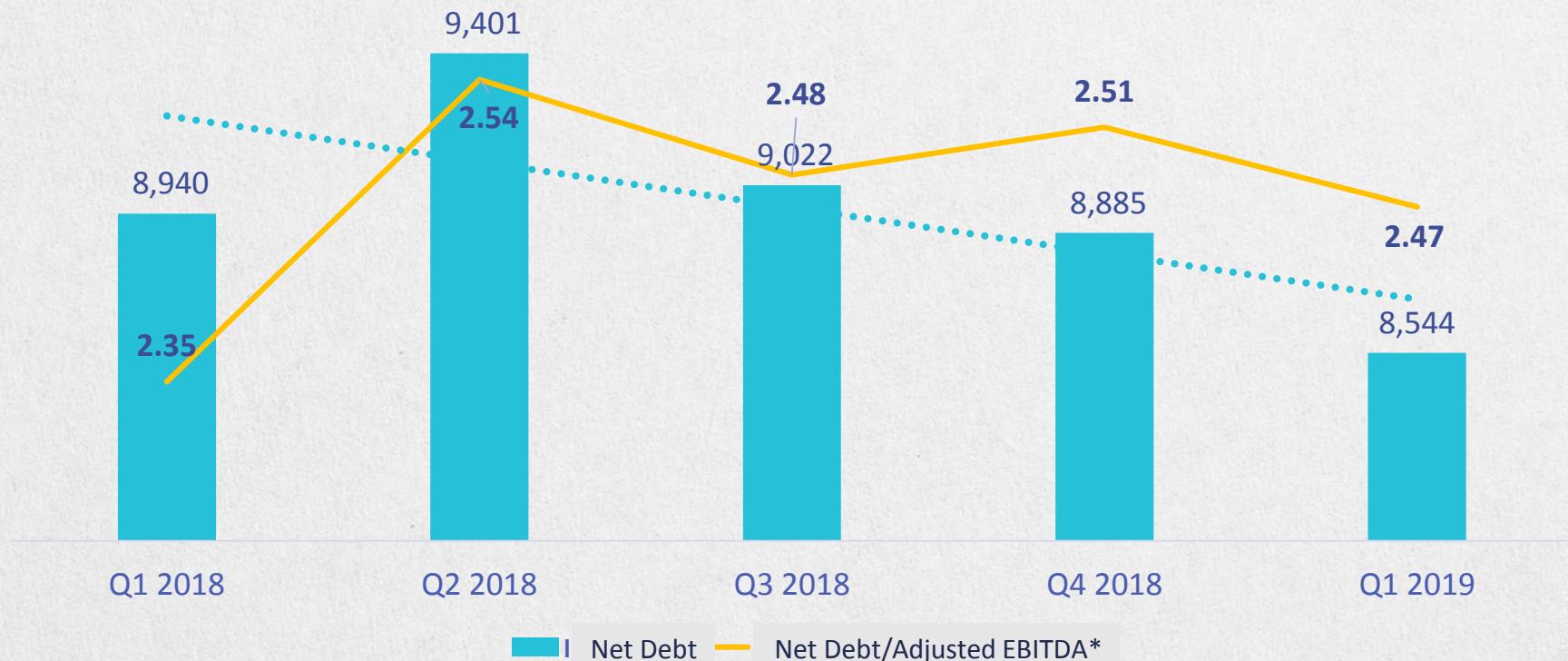
32

Broadband Internet Trends | Retail and Wholesale



Bezeq Group – Net Debt

Y-o-Y Decrease of NIS 400 million in Net Debt in Q1 2019



* Adjusted EBITDA – EBITDA after adjusting for other expenses/income, net, one-time loss from impairment and the effect of adoption of accounting standard IFRS 16

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. Continue to adapt the Company's debt structure to its needs, *inter alia*, through refinancing and extension of maturities
 - III. Operate with high cash balances

Bezeq Group - 2019 Guidance

At of the date of publication of the report for the first quarter of 2019, there is no change to the Bezeq Group's outlook for 2019, as published in the Company's periodic report as of December 31, 2018

- ▶ **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

Further to the Immediate Report published by the Company on May 6, 2019 regarding the sale of the "Sakia" property and the expected recording of a capital gain (the scope of which is still being examined by the Company) in the financial statements for the second quarter of 2019, it is hereby clarified that this capital gain is not included in the Group's net profit and EBITDA forecast.

Regarding the Group's EBITDA forecast, note the updated definition of EBITDA as follows:

"Earnings before interest, taxes, depreciation, amortization and ongoing losses from impairment of fixed and intangible assets."

Beginning January 1, 2019, in order to enable the proper presentation of the business operations, the Company presents ongoing losses from the impairment of fixed and intangible assets in yes and Walla under "Depreciation and Amortization", as well as ongoing losses from impairment of broadcasting rights under "Operating and General Expenses" (in the Income Statement). For this purpose, it is clarified that ongoing losses from impairment of assets will be reclassified under the same items in which expenses in respect of these assets were recorded in the past. The Company believes that in light of expectations of continued negative cash flow and negative valuation of yes and Walla and in light of the fact that the impairment is expected to continue in the future, the reclassification is more consistent with the method of presentation based on the nature of the expense and is more suitable for understanding the Company's business. It is further clarified that expenses in respect of an impairment loss resulting from a one-time adjustment of forecasts for the coming years, will be reclassified as "Other Operating Expenses" in the Income Statement. There is no change in the forecast itself in relation to EBITDA.

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, 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

Thank You

For more information please visit
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