



Bezeq Group Investor Presentation Q2-2021

August 12, 2021



Forward-Looking Information and Statement (Disclaimer)

This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunications Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management’s expectations about new and existing programs, opportunities, technology and market conditions. Although Bezeq believes its expectations are based on reasonable assumptions, these statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. In addition, the realization and/or otherwise of the forward looking information will be affected by factors that cannot be assessed in advance, and which are not within the control of Bezeq, including the risk factors that are characteristic of its operations, developments in the general environment, external factors, and the regulation that affects Bezeq’s operations.

This presentation 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 presentation 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 presentation 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.

The information included in this presentation is based on information included in Bezeq’s public filings. However, some of the information may be presented in a different manner and/or breakdown and/or is differently edited. In any event of inconsistency between Bezeq’s public filings and the information contained in this presentation, the information included in the public filings shall prevail.

The information contained in this presentation or which will be provided orally during the presentation thereof, does not constitute or form part of any invitation or offer to sell, or any solicitation of any invitation or offer to purchase or subscribe for, any securities of Bezeq or any other entity, nor shall the information or any part of it or the fact of its distribution form the basis of, or be relied on in connection with or relating to any action, contract, commitment or to the securities of Bezeq. The presentation does not constitute a recommendation or opinion or substitute for the discretion of any investor.



Bezeq Group Focus

Group Vision

To lead the Israeli telecommunications market, providing a full range of products and services for the residential and business markets and striving for continuous improvement in business results

- Accelerated deployment of **fiber optics** for the residential sector as a **growth engine**, while continuing to strengthen our position in the business sector
- Focus on **customer premises** through a combination of fiber infrastructure, triple play and related products (such as router and wi-fi enhancers)
- In H1 2022 Bezeq will be able to offer unified broadband Internet services (infrastructure and ISP)
- **Structural change** in yes and Bezeq International:
 - Spin-off of the ICT business division to a separate company to focus on a segment with significant growth potential
 - Merge Bezeq International's consumer activities into yes to strengthen TV and Internet offering and leverage Group's fiber infrastructure through triple play offering
- Deepen **streamlining** in key subsidiary companies while improving free cash flow
- Pelephone will focus on marketing **5G growth engine** and ARPU enhancement



Focus on Building Infrastructure and Growth Engines



Q2-2021 Financial Results Highlights



- Revenues grew 2.1% to NIS 2.2 billion
- Adjusted EBITDA* of NIS 944 million, down 0.7% y-o-y; Adjusted EBITDA margin of 42.9%
- Adjusted net profit* of NIS 304 million, up 20.6% y-o-y
- Free cash flow of NIS 85 million, a decline of 41.0% y-o-y primarily due to increased capex
- Net debt decreased by NIS 877 million y-o-y and liquidity ratios improved
- 81% increase in Bezeq's ESG grade with Bloomberg

Bezeq Fixed-Line

- Stable revenues and 8.9% increase in adjusted net profit*
- Continued improvement in key operating metrics
 - Increase in retail broadband Internet subscribers for a fifth consecutive quarter
 - 8.2% increase in retail broadband Internet ARPU
 - Continued growth in sales of BE router and wi-fi enhancers. Launch of new BE2 router
- Continued massive deployment of fiber – 718k homes passed as of today

Subsidiary Companies

- Pelephone posted strong financial results y-o-y :
 - 7.7% increase in revenues and 11.2% increase in EBITDA
 - Continued growth in postpaid subscribers
 - Successful deployment and growth in 5G subscribers
- Improved results in yes
 - Significant improvement in free cash flow in yes which turned positive in 1H 2021
 - Continued growth in yes subscribers with increase in IP subscribers to 33%

Regulation

- MOC approved cancellation of infrastructure and ISP separation. Bezeq may offer unified broadband Internet in H1 2022
- Hearing held on reduction in telephony tariffs
- MOC approved the merger of Bezeq International into yes



Progress on Structural Change

- Bezeq's Board of Directors approved the structural change that includes the spin-off of the ICT business division into a new and separate company, and the merger of Bezeq International's private sector ISP operations into yes (following approval of the Minister of Communications)
- The new ICT company will allow management to focus on realizing its potential in the IT market
 - The Israeli IT market size is estimated to be approximately USD 8 billion per year and growing rapidly
 - Bezeq International has a significant presence in this market (revenues of hundreds of millions of shekels per year)
 - The new company aims to combine organic growth with targeted acquisitions
- The merger of Bezeq International's consumer activities into yes will allow us to implement, for the first time, an effective triple play strategy based on yes's strong brand and quality TV product together with Bezeq's fiber infrastructure, supporting growth for the Group in the residential sector
- In light of the company's intentions, the Histadrut labor union declared a labor dispute. The company will conduct negotiations with the employee representatives

A top-down view of a business meeting around a white table. Several people in suits are gathered, looking at documents and a laptop. A coffee cup is on the table. A dark blue semi-transparent rectangle is overlaid in the center, containing the title text.

Financial Results

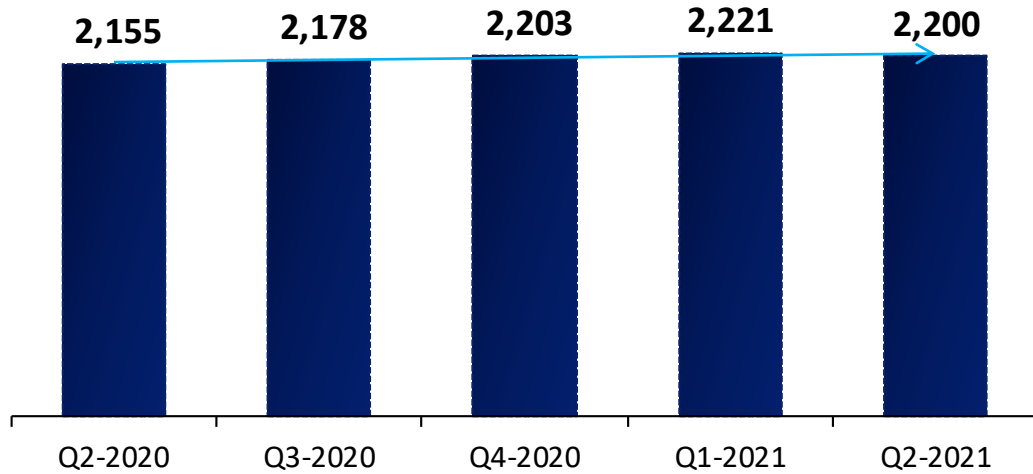
Bezeq Group



Bezeq Group – Quarterly Key Financial Metrics | NIS Million

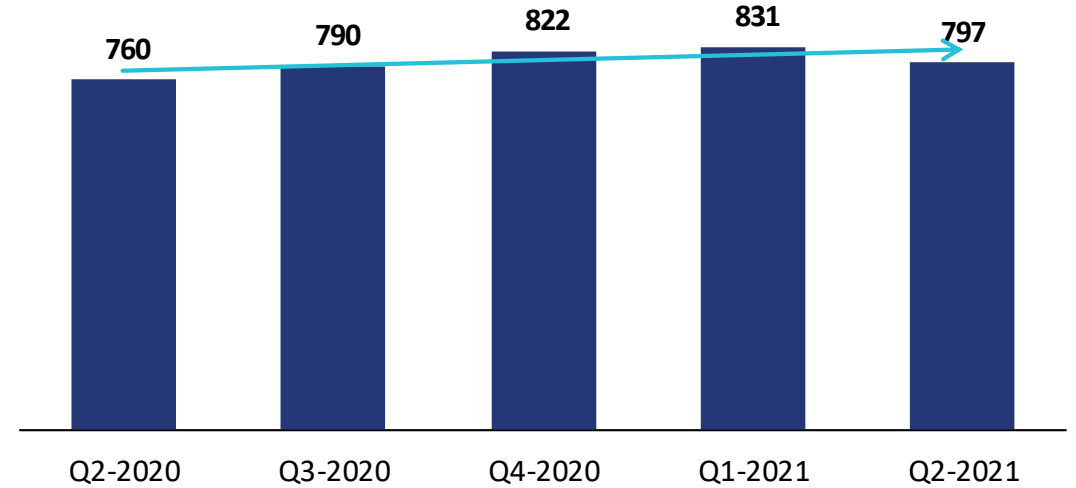
Revenues

2.1%



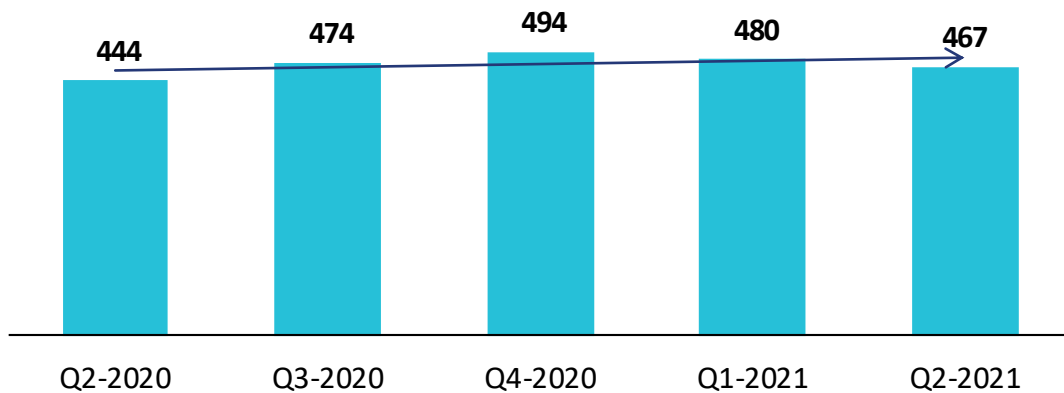
Operating Expenses

4.9%



Salary Expenses, Net

5.2%



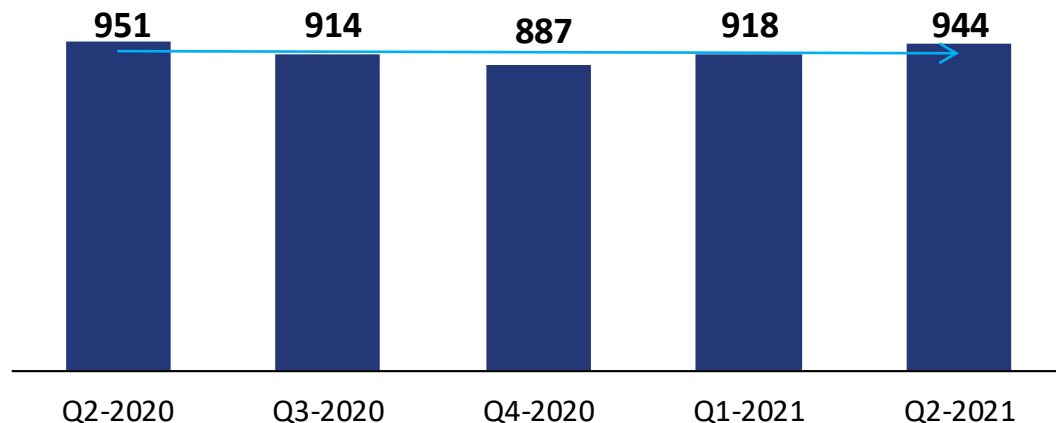
- Increase in **revenues** in Pelephone and Bezeq Online
- Increase in **salary expenses** of Bezeq Fixed-Line, Pelephone
 - Bezeq Fixed-Line - Recognition of stock-based compensation
 - Pelephone - Employees furloughed in Q2-20 due to COVID-19
- Increase in **operating expenses** mainly in Bezeq Fixed-Line and Pelephone
 - Bezeq Fixed-Line - Impacted by initial recognition of universal fund for fiber deployment, COVID-19 impact in Q2-20 and the deployment of fiber in the current quarter
 - Pelephone - Increase in cost of handsets in-line with the increase in handset revenues as well as costs relating to the new cloud system



Bezeq Group – Quarterly Key Financial Metrics | NIS Million

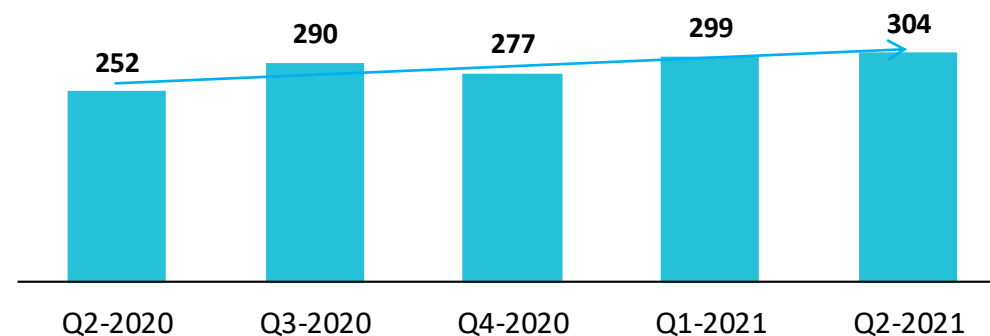
Adjusted EBITDA*

0.7%



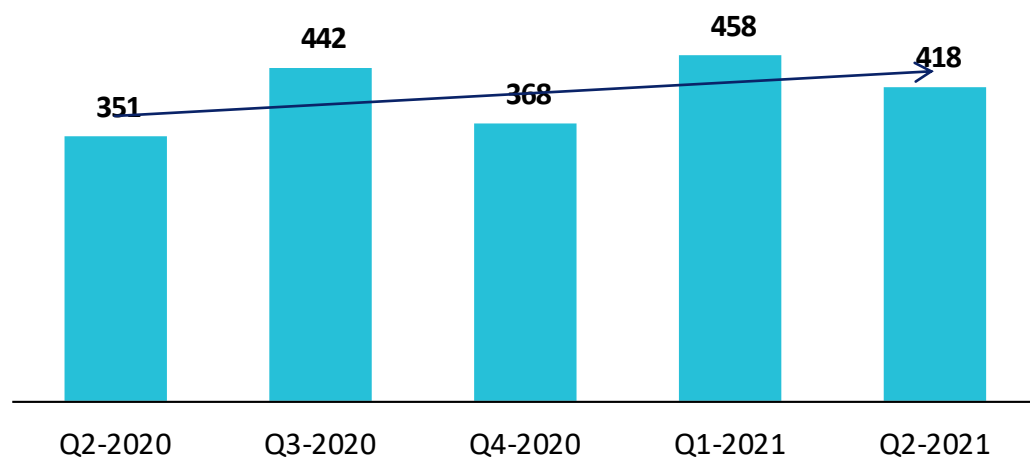
Adjusted Net Profit*

20.6%



Gross Capex

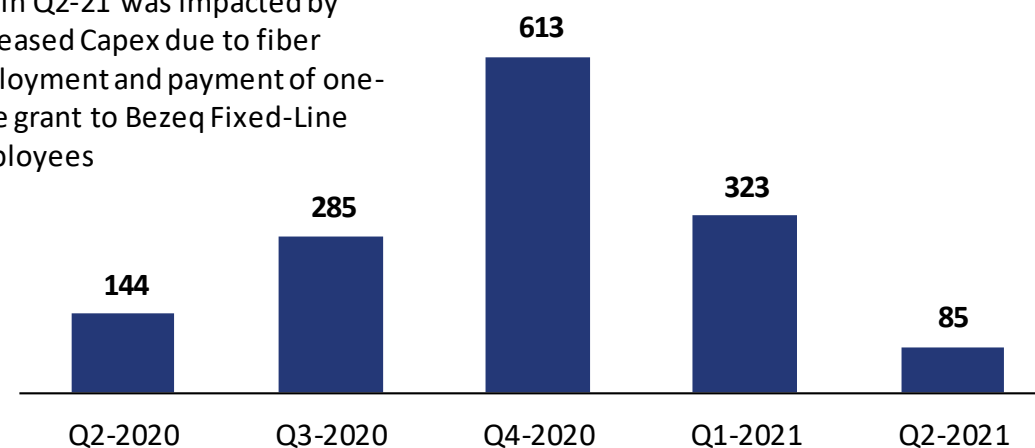
19.1%



Free Cash Flow

41.0%

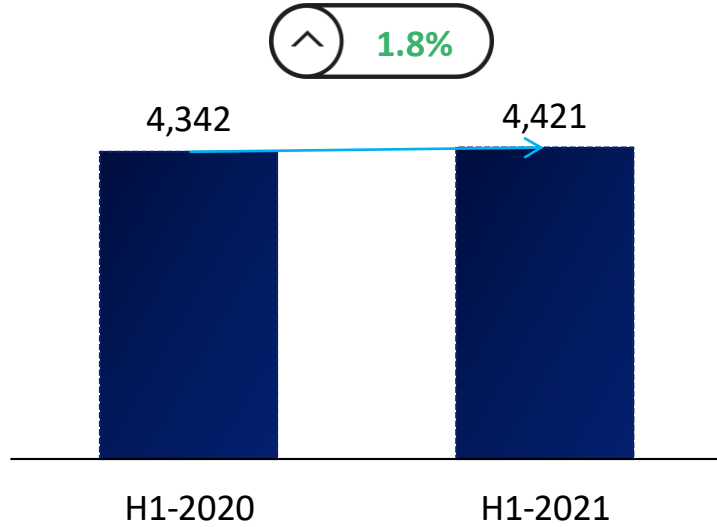
FCF in Q2-21 was impacted by increased Capex due to fiber deployment and payment of one-time grant to Bezeq Fixed-Line employees



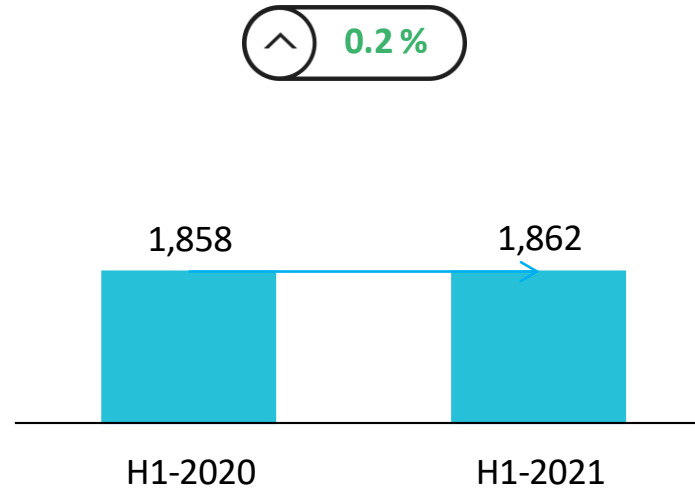


Bezeq Group – Key Financial Metrics (H1-2021) | NIS Million

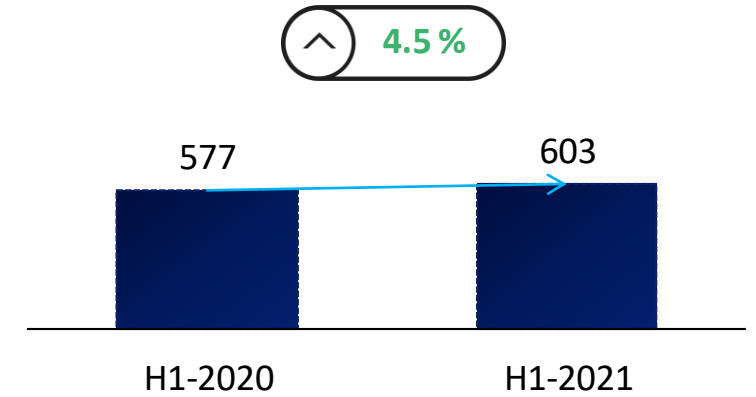
Revenues



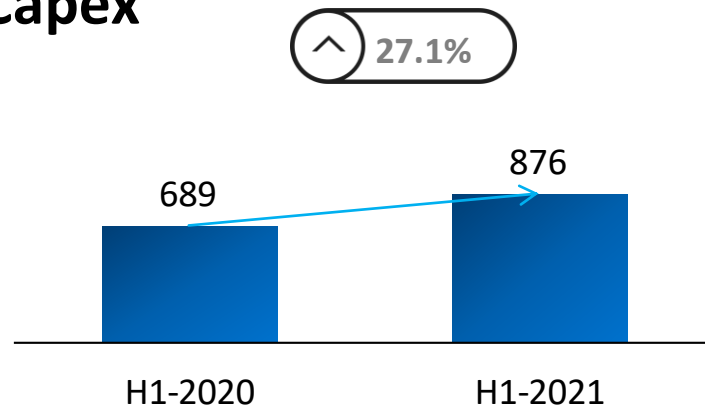
* Adjusted EBITDA



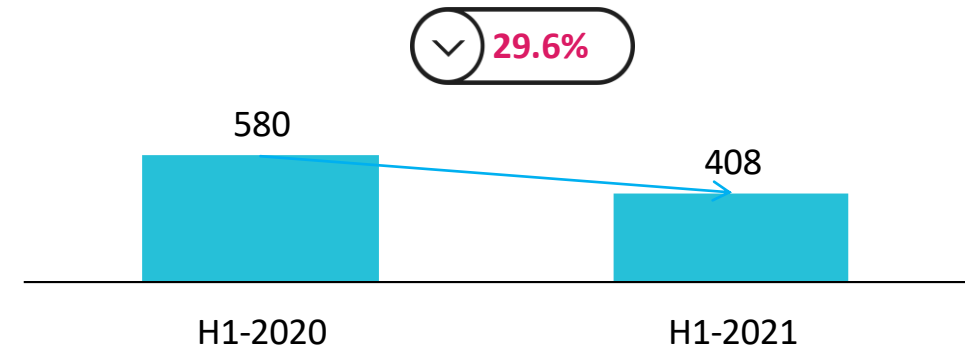
Adjusted Net Profit*



Gross Capex



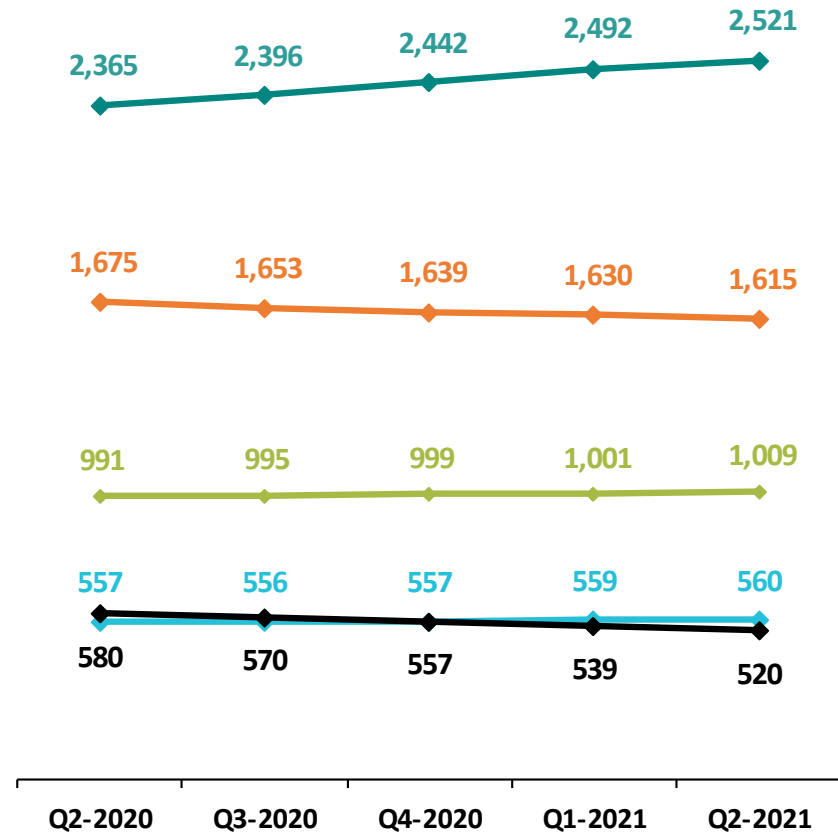
Free Cash Flow



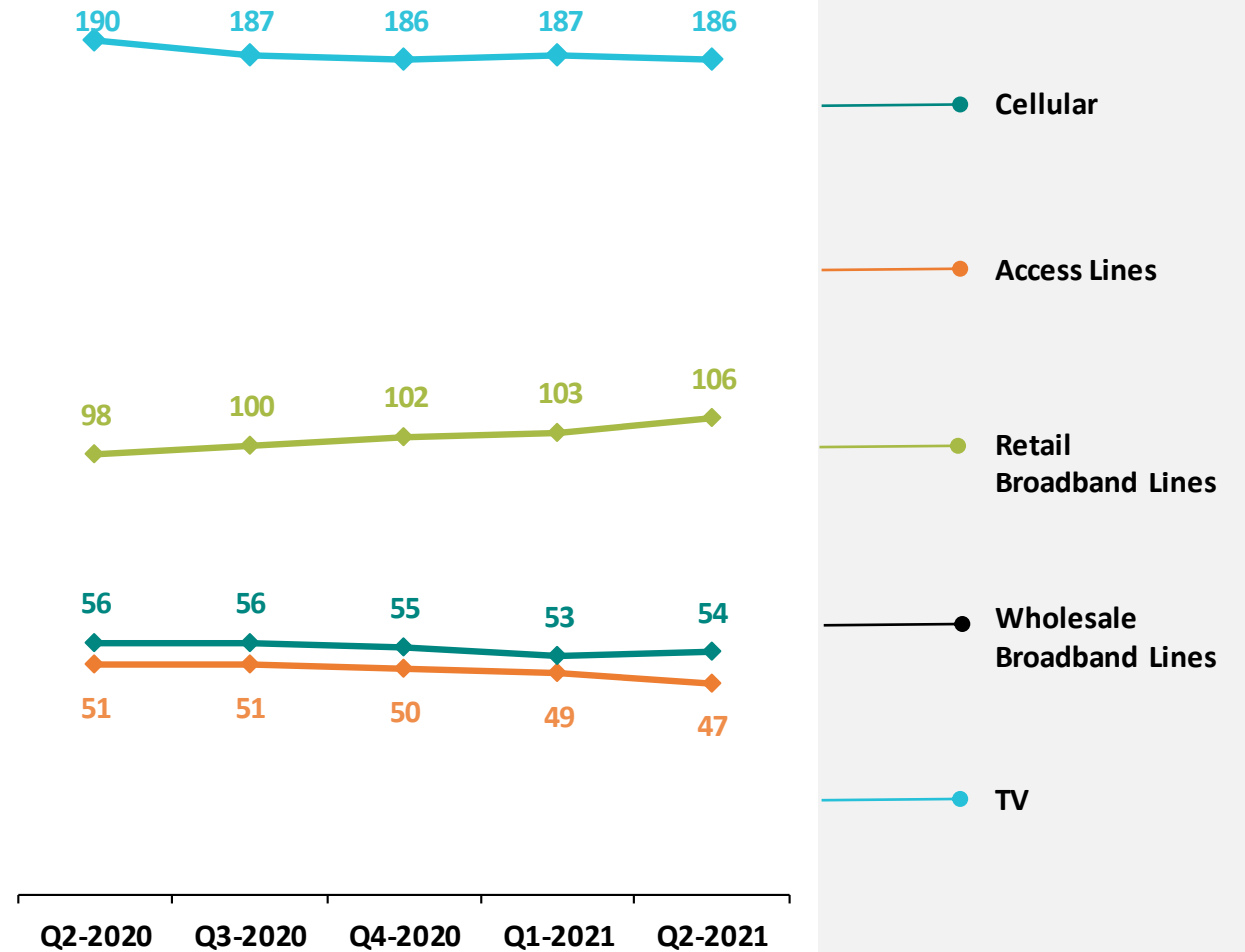


Bezeq Group - KPIs

Subscribers (end of quarter, in thousands)



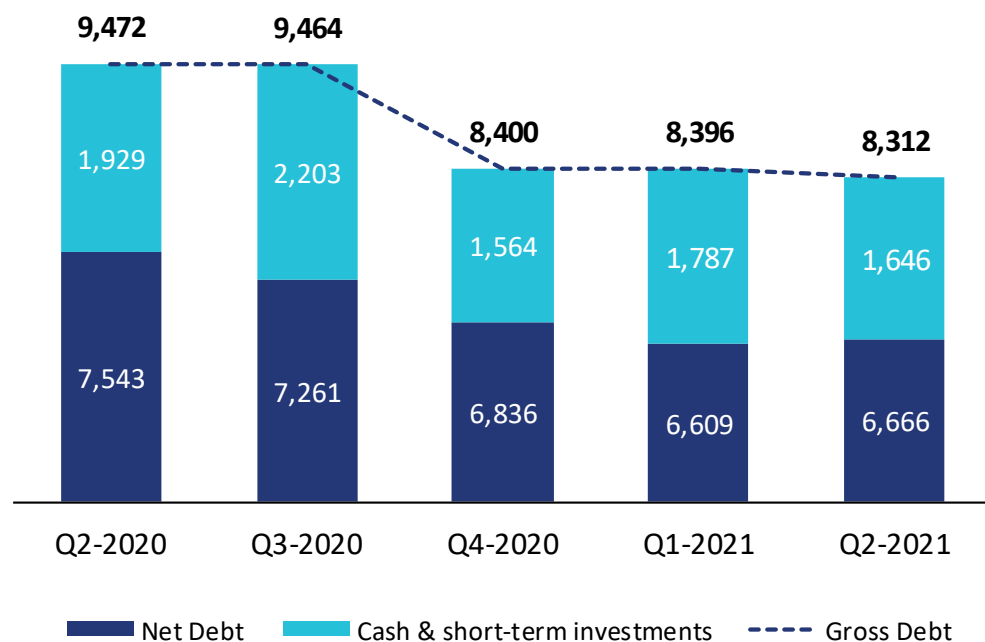
ARPU (NIS)





Bezeq Group - Financial Debt | NIS Million

12% y-o-y Decrease in Net Debt



Continued decrease in net debt

- Decrease of NIS 877 million y-o-y, ~12%

Further improvement in coverage ratio

- Net debt/EBITDA ratio decreased to 2.0 from 2.3 in Q2-20

Israeli debt ratings

Rating Agency	Rating	Outlook
S&P Global Maalot	-ilAA	Stable
Midroog	Aa3.il	Stable



Bezeq Group - 2021 Outlook

As of the date of publishing the Q2-21 report, there is no change to the Bezeq Group's outlook for 2021, as published in the Company's periodic report for the year 2020. We continue to expect:

	Updated Outlook
Adjusted net profit attributable to shareholders ¹	NIS 1.0 billion
Adjusted EBITDA ¹	NIS 3.5 billion
CAPEX ²	NIS 1.7 billion

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

1) Adjusted net profit and Adjusted EBITDA – after adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock based compensation. Adjusted EBITDA and Adjusted Net Profit in 2020 were NIS 3.66 billion and NIS 1.14 billion, respectively.

2) CAPEX - gross payments for investments in fixed and intangible assets. CAPEX in 2020 amounted to 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.

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 2021. 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 2020. 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.

A young girl with long brown hair is wearing large, pink over-ear headphones and is smiling while looking at a tablet computer. She is wearing a blue and white patterned top. In the background, a man and a woman are sitting on a light-colored sofa, looking down at their own devices. The man is wearing a blue long-sleeved shirt and jeans, and the woman is wearing a grey and white striped long-sleeved shirt and blue jeans. The scene is set in a bright, modern living room with light-colored walls and a window with white curtains in the background.

Bezeq Fixed Line



Bezeq Fixed-Line – Q2-2021 Highlights

- Stable revenues y-o-y, despite 11.2% decrease in telephony revenues
- Stable revenues from broadband Internet services due to growth in retail subscribers for the fifth consecutive quarter and ARPU offset by the decrease in wholesale tariffs and subscribers
- Continued **robust sales of equipment** led to increased retail broadband ARPU
- Increase in revenues from the **business sector** - 10.0% increase y-o-y in revenues from transmission and data communications and 8.6% increase y-o-y in revenues from cloud & digital services
- Massive deployment of **fiber** and beginning of customer connections
 - 718K homes passed (ready for connection)
 - On track to reach our target of 1 million homes passed by year-end



Fiber Deployment Proceeding at Record Pace

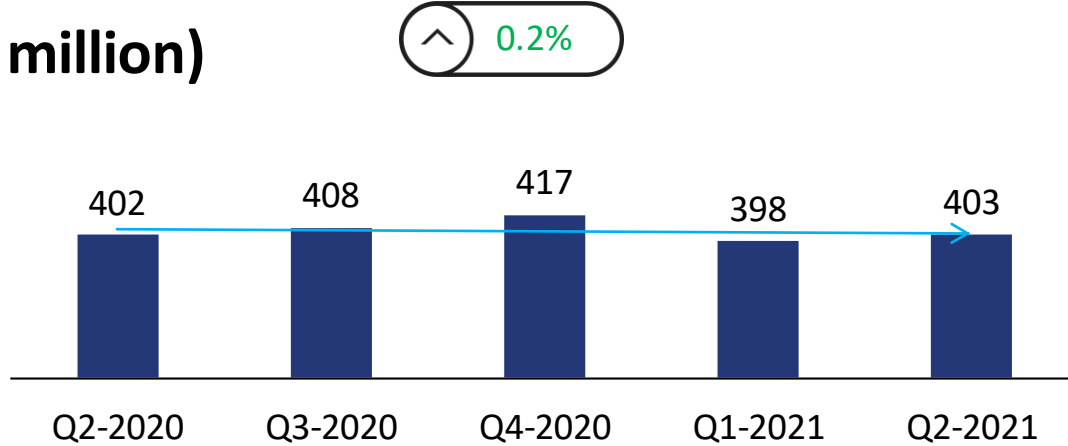
Homes Passed
(Ready for subscriber connections)
(In thousands)



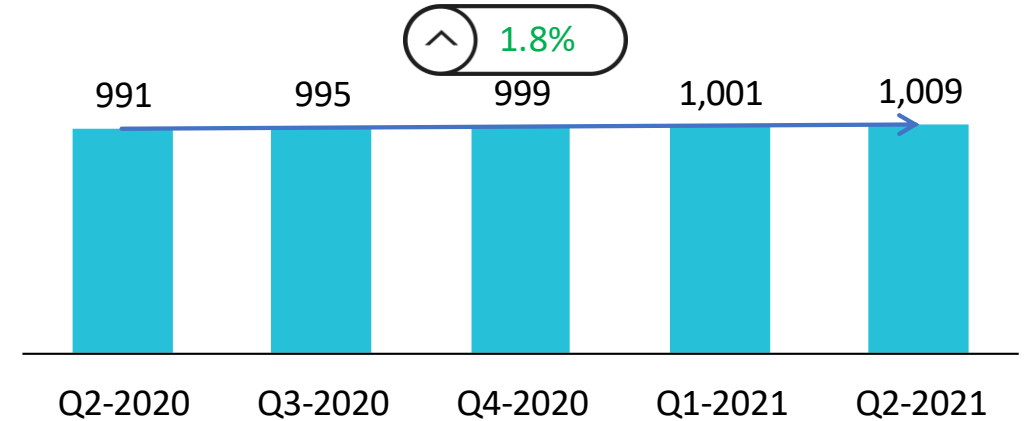


Bezeq Fixed-Line - Broadband Internet Services

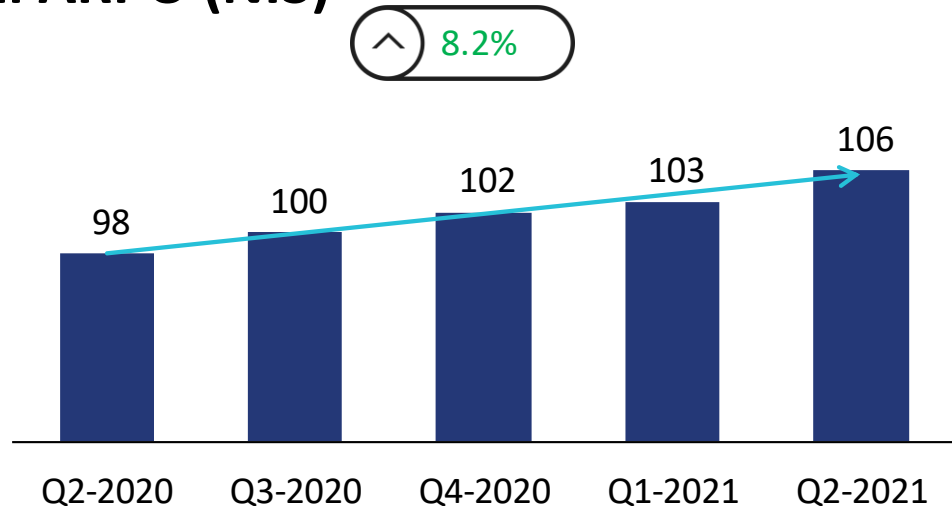
Revenues from Broadband - Internet Services (NIS million)



Bezeq Retail Broadband Lines (Thousands)



Retail ARPU (NIS)



- **Stable revenues** from broadband Internet services y-o-y despite the sharp decrease in wholesale tariffs
- Continued growth in **broadband Internet retail lines** for the fifth consecutive quarter
- Unprecedented **growth** in broadband Internet retail **ARPU**, impacted by the deployment of fiber and accelerated sales of equipment (BE router, Bspot, Be Mesh)
- Launch of **2.5 Gbs** plan in Q2-21

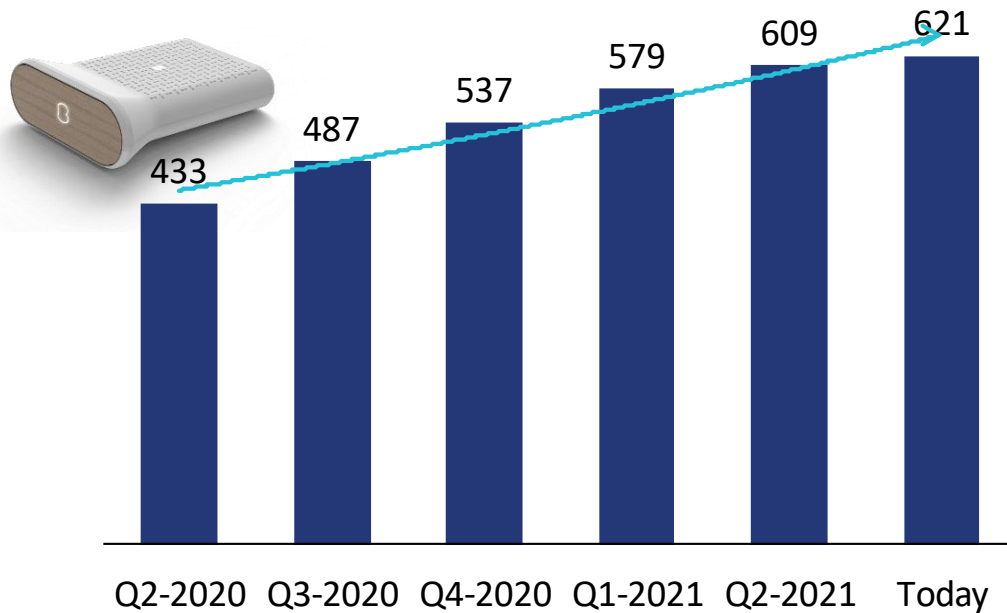


Bezeq Fixed-Line - Full WiFi Differentiation

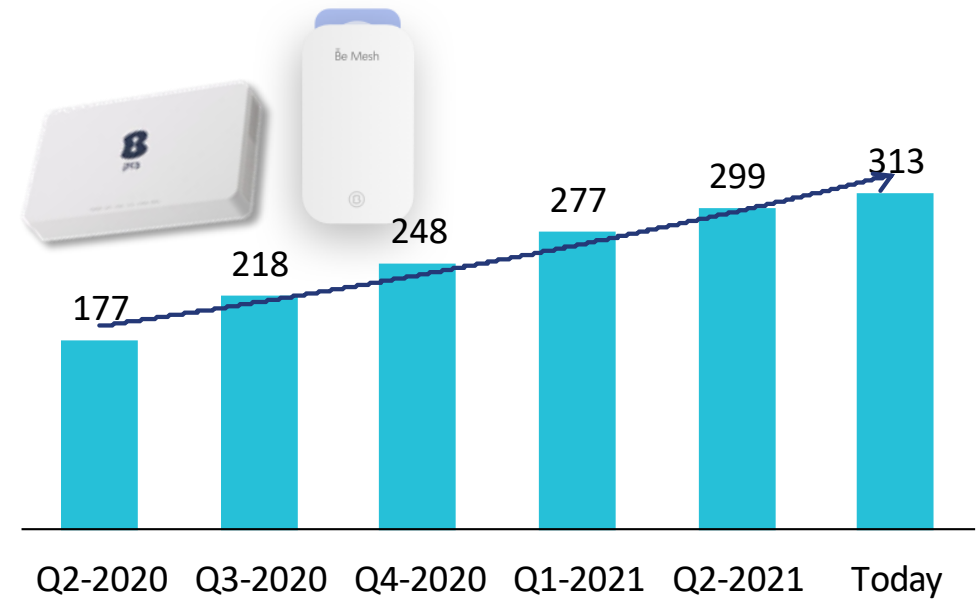
with High Quality Broadband Internet at Home

- Improved broadband experience and customer retention through BE router and Bspot/Be Mesh services
- Launch of advanced Be Fiber router in Q2-21

Customers with BE router (in thousands)



Customers with BSPOT and MESH (in thousands)

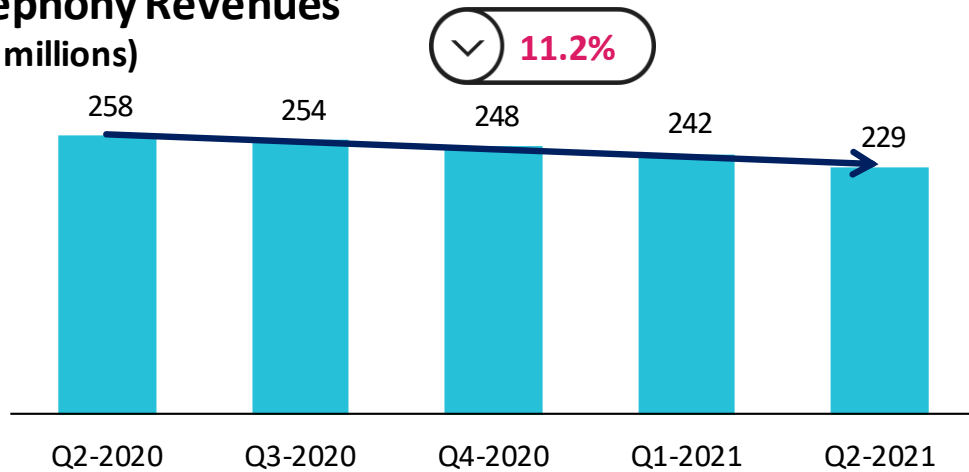


~62% of the Company's retail customers choose to connect via the BE router

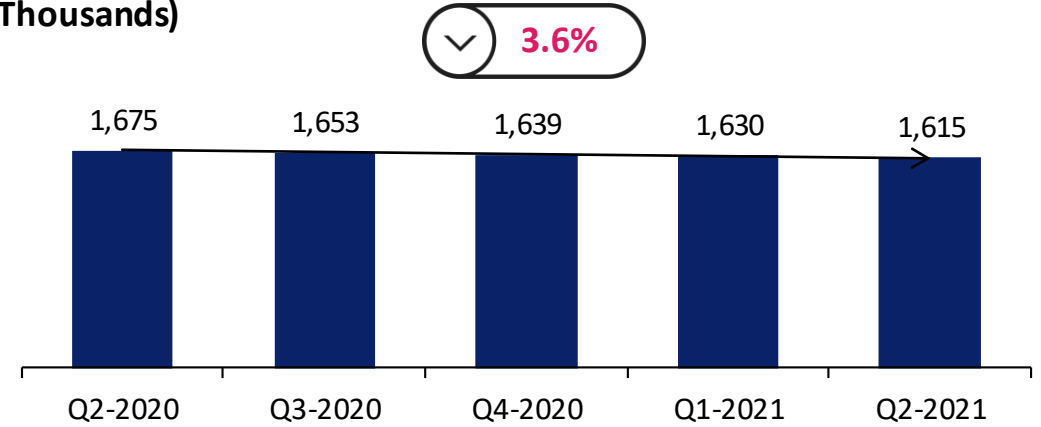


Bezeq Fixed-Line - Telephony Services

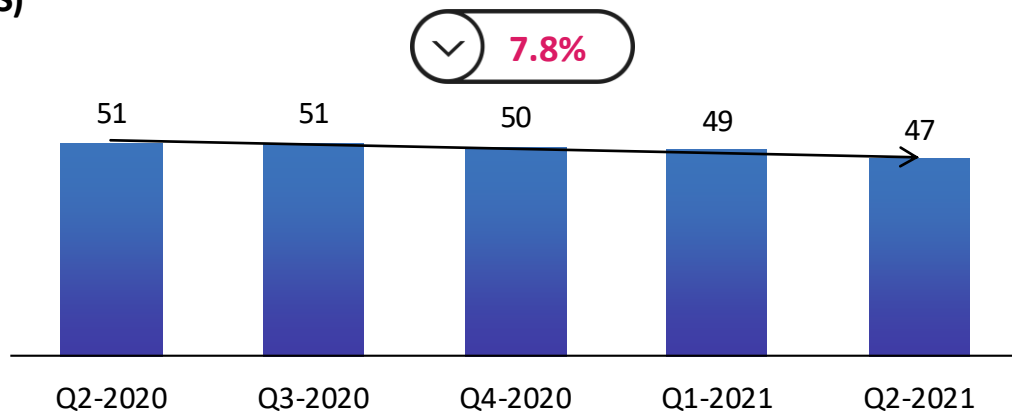
Telephony Revenues (NIS millions)



Access Lines (Thousands)



Telephony ARPL (NIS)

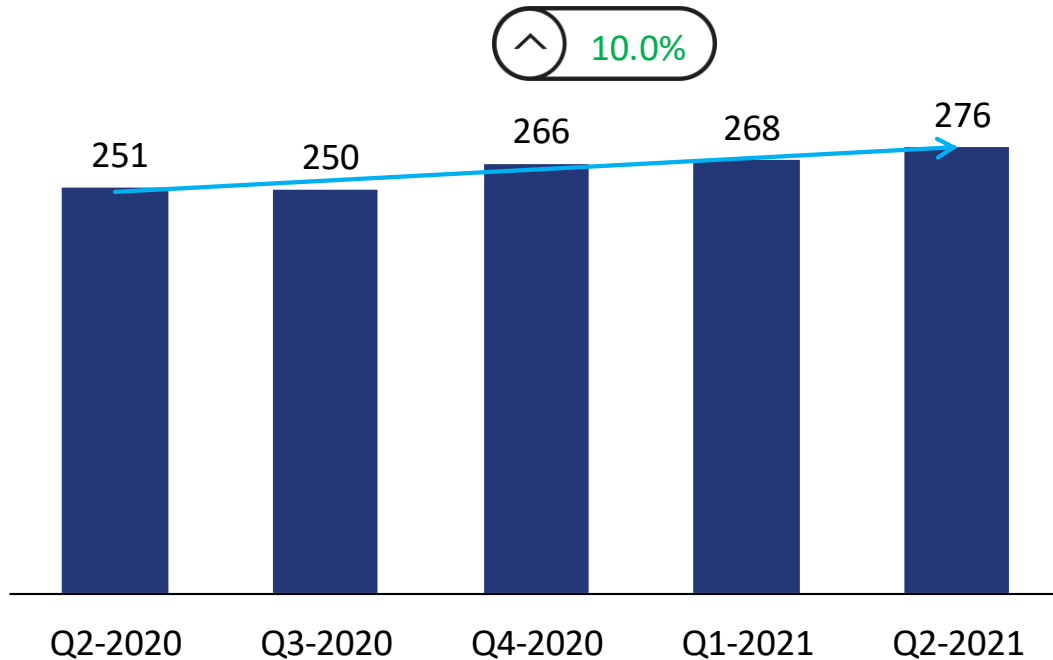


- Lower telephony revenues in Q2-2021 due to lower impact of COVID-19



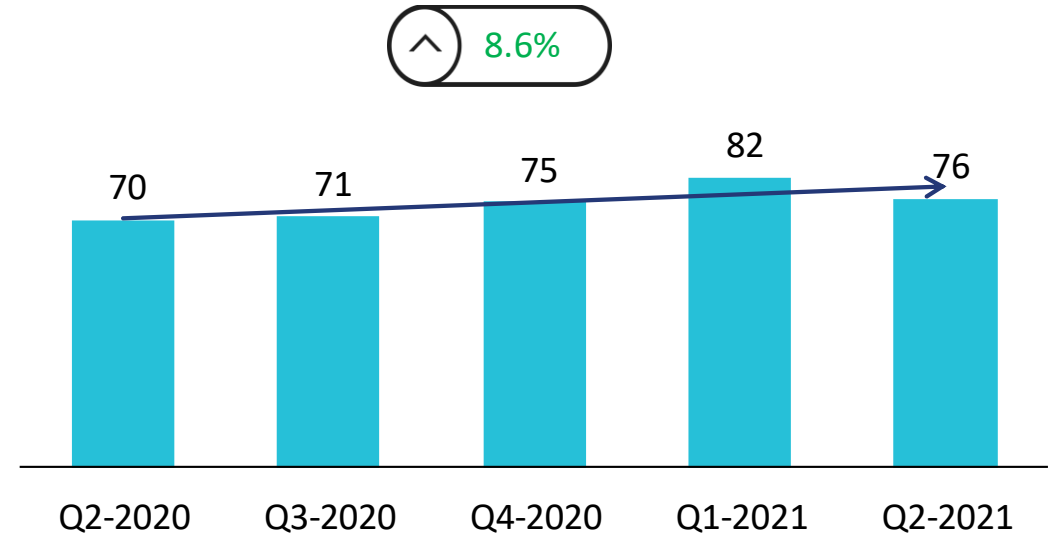
Bezeq Fixed-Line - Revenues from Transmission and Data Communications and Cloud & Digital Services | NIS Million

Transmission & Data



- Increase in revenues from transmission services for ISPs and business customers

Cloud & Digital Services



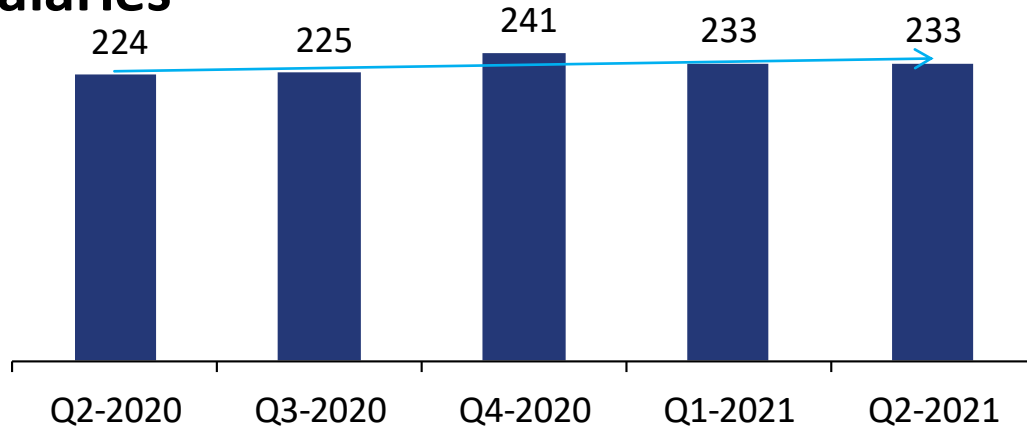
- Increase in revenues from virtual exchanges and business directory services



Bezeq Fixed-Line – Key Financial Metrics | NIS million

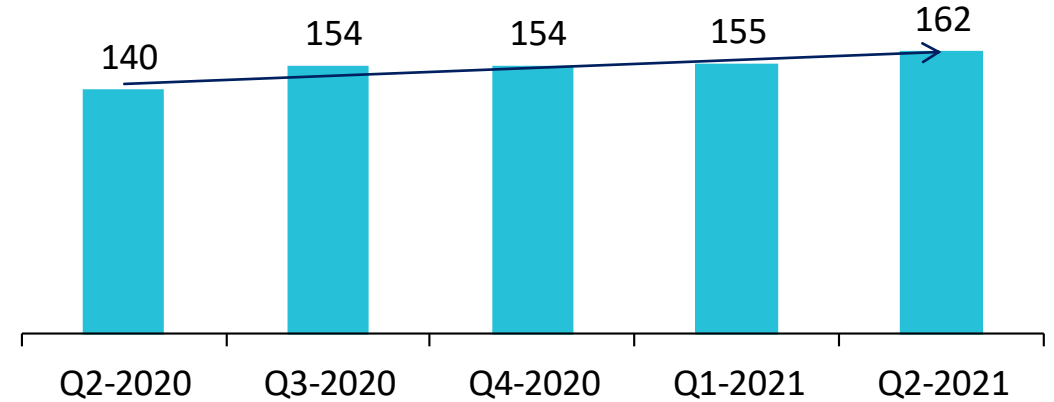
4.0%

Salaries



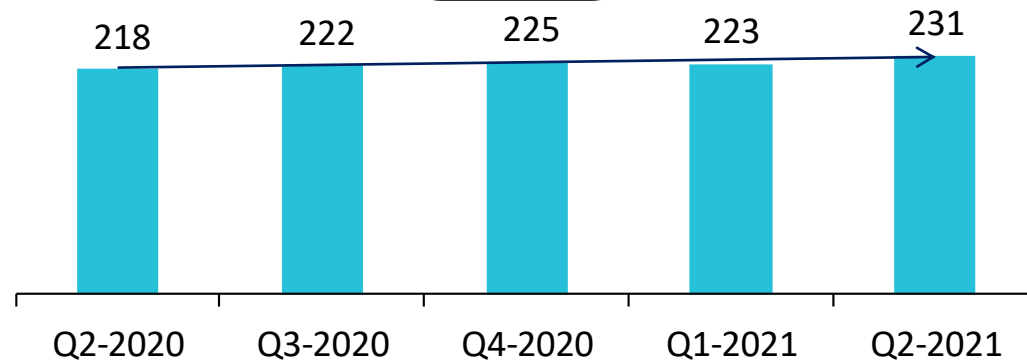
Operating Expenses

15.7%



Depreciation

6.0%



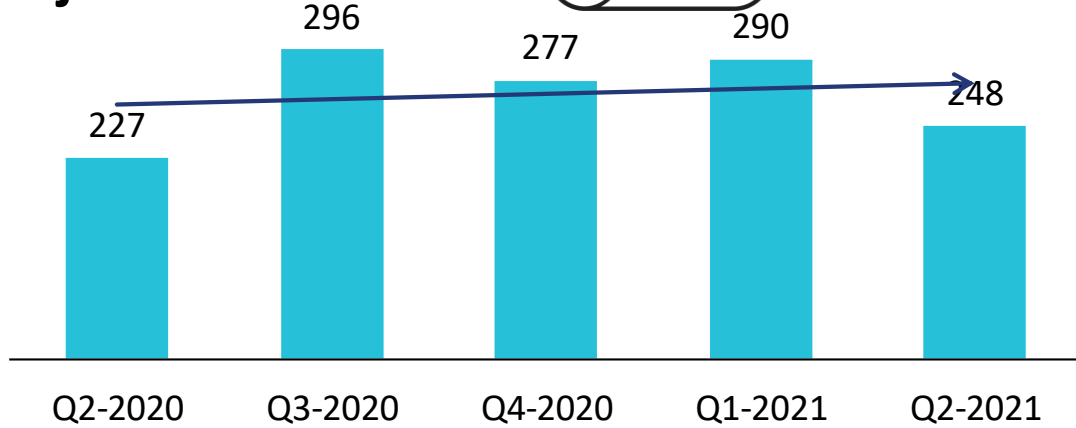
- **Salary expenses** in Q2-21 included recognition of stock-based compensation of NIS 5 million
- **Operating expenses** in Q2-21 were impacted by the recognition of expenses of NIS 10 million for the universal fund for fiber deployment, COVID-19 impact in Q2-20 and the deployment of fiber in the current quarter



Bezeq Fixed-Line - Key Financial Metrics | NIS Million

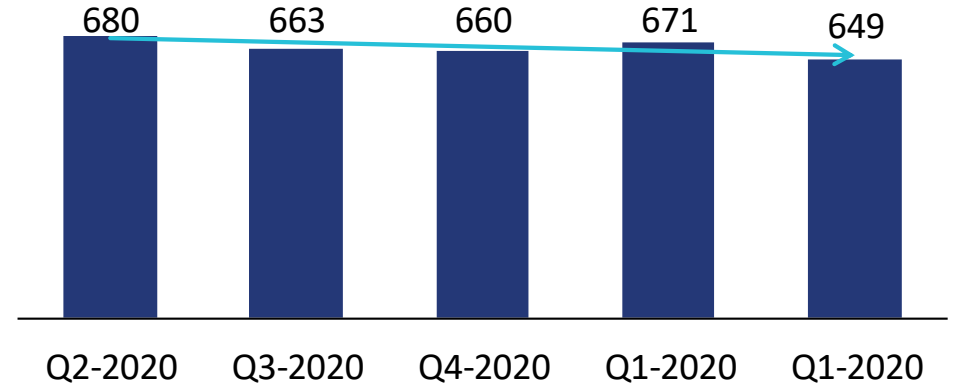
Adjusted Net Profit*

8.9%



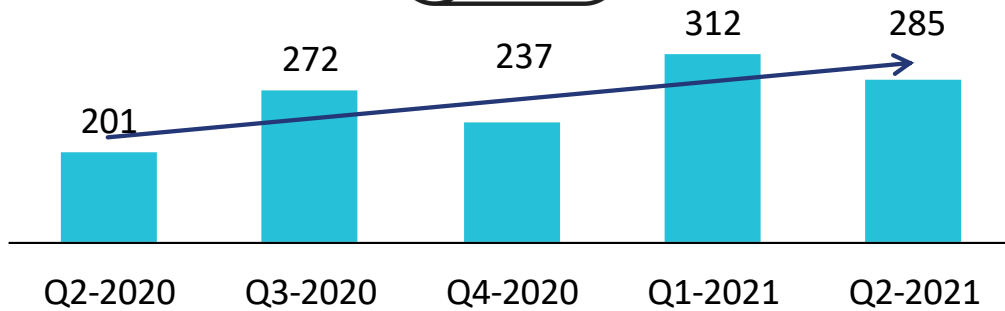
Adjusted EBITDA*

4.6%



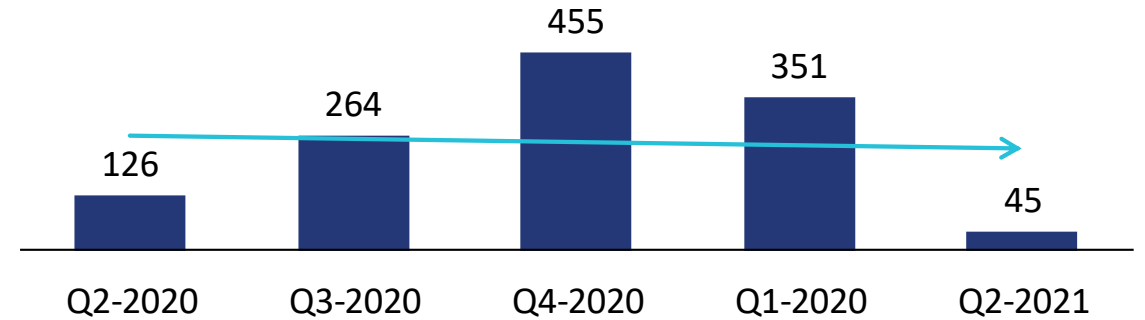
Gross Capex

41.8%



Free Cash Flow

64.3%

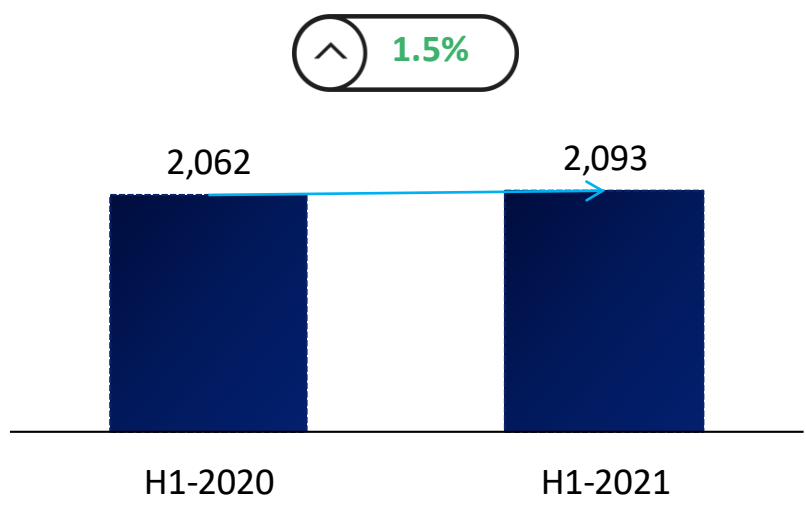


- FCF in Q2-21 was impacted by increased Capex due to fiber deployment and payment of one-time grant to employees

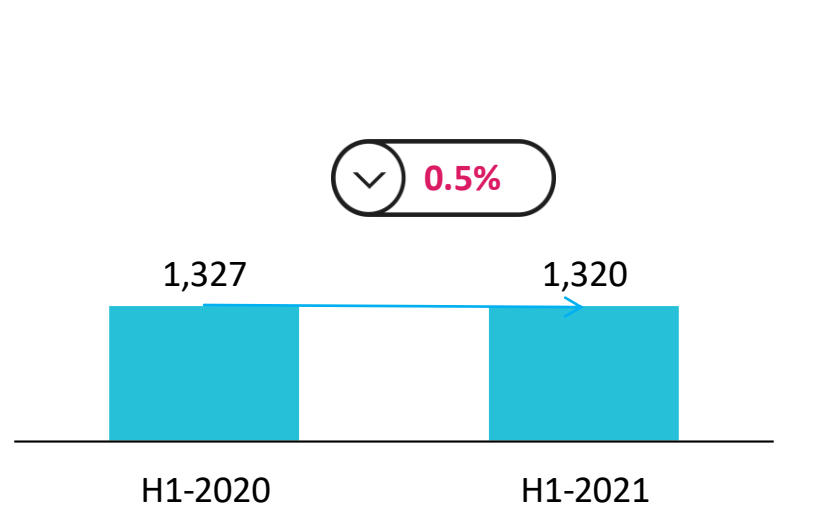


Bezeq Fixed-Line – Key Financial Metrics (H1-2021) | NIS million

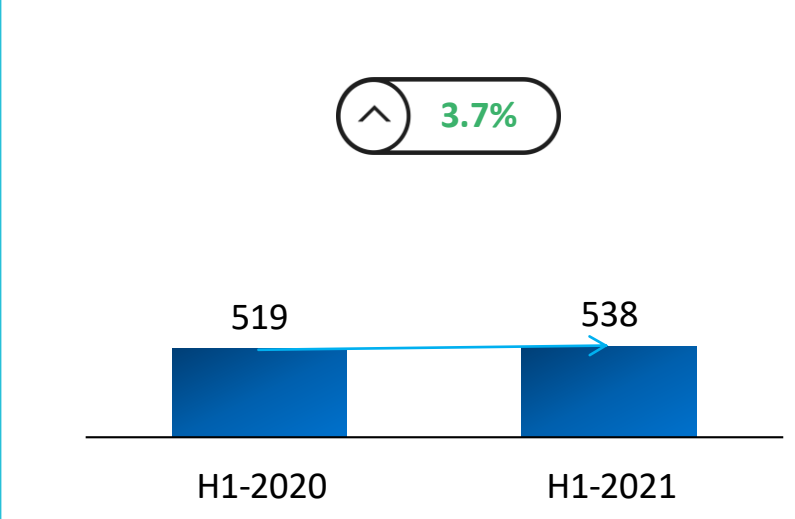
Revenues



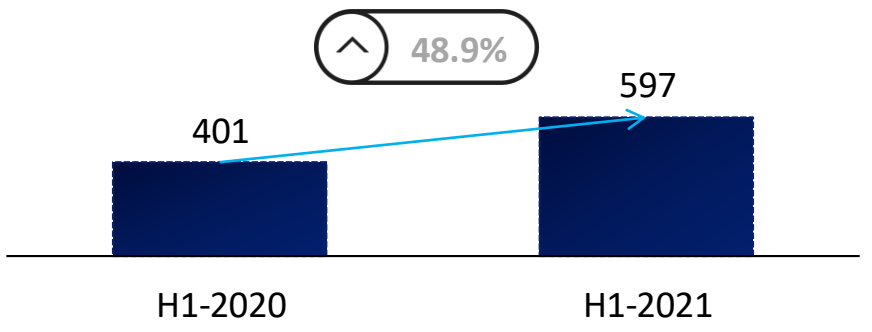
Adjusted EBITDA*



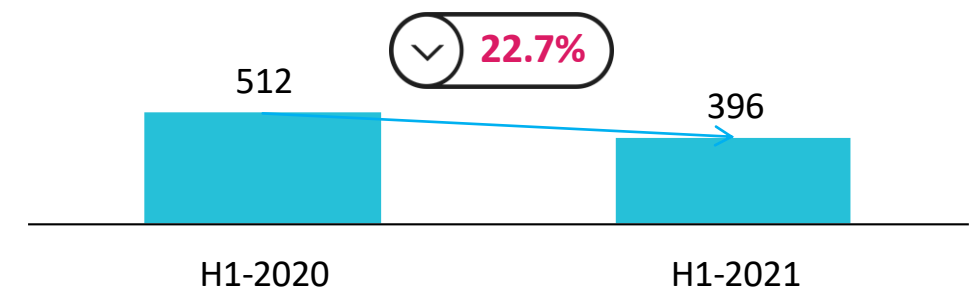
Adjusted Net Profit*



Gross Capex



Free Cash Flow



* After adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation



Bezeq Fixed-Line - Summary



Growth in retail broadband Internet revenues driven by increase in retail subscribers and ARPU



Success in sales of BE router and Wifi enhancers



Launch of nationwide deployment of fiber



Leading operations in business sector

Accelerated fiber deployment together with high quality service reflects potential for continued growth and strengthening of Bezeq's position in the residential broadband Internet market

Subsidiary Companies ("Project Alpha")



Bezeq International

yes.



Pelephone



ISP



TV



Mobile

Subsidiary Companies – Q2 2021 Highlights

✓ All three companies posted subscriber growth



✓ **yes** – Positive free cash flow of NIS 20 million in H1-2021



✓ **33%** of **yes** customers watching TV through IP broadcasting



✓ Continued streamlining in employee headcount pursuant to collective agreements



✓ Increase in number of **Pelephone** subscribers in 5G network plans



✓ Launch of FIBER+ plans over fiber network in **Bezeq International**



✓ Growth in **Bezeq International's** business and data operations



Subsidiary Companies - The First Stage (2019-2021)

Steps Taken

- Reduced headcount by 1,400 employees in the last 2.5 years (Dec 2018 – June 2021) through 45% reduction in senior management positions (including those reporting to senior management)
- Lowered operating expenses through joint procurement for all three companies and savings in real estate

Future Steps Planned

- Transition to one new CRM system – sales and services to customers through a wider approach (including triple play); savings in future investments and costs of support

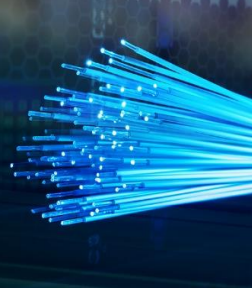


Subsidiary Companies - Marching on to Next Generation Technologies

**5G
Mobile**



**Internet
over Fiber
Optics**

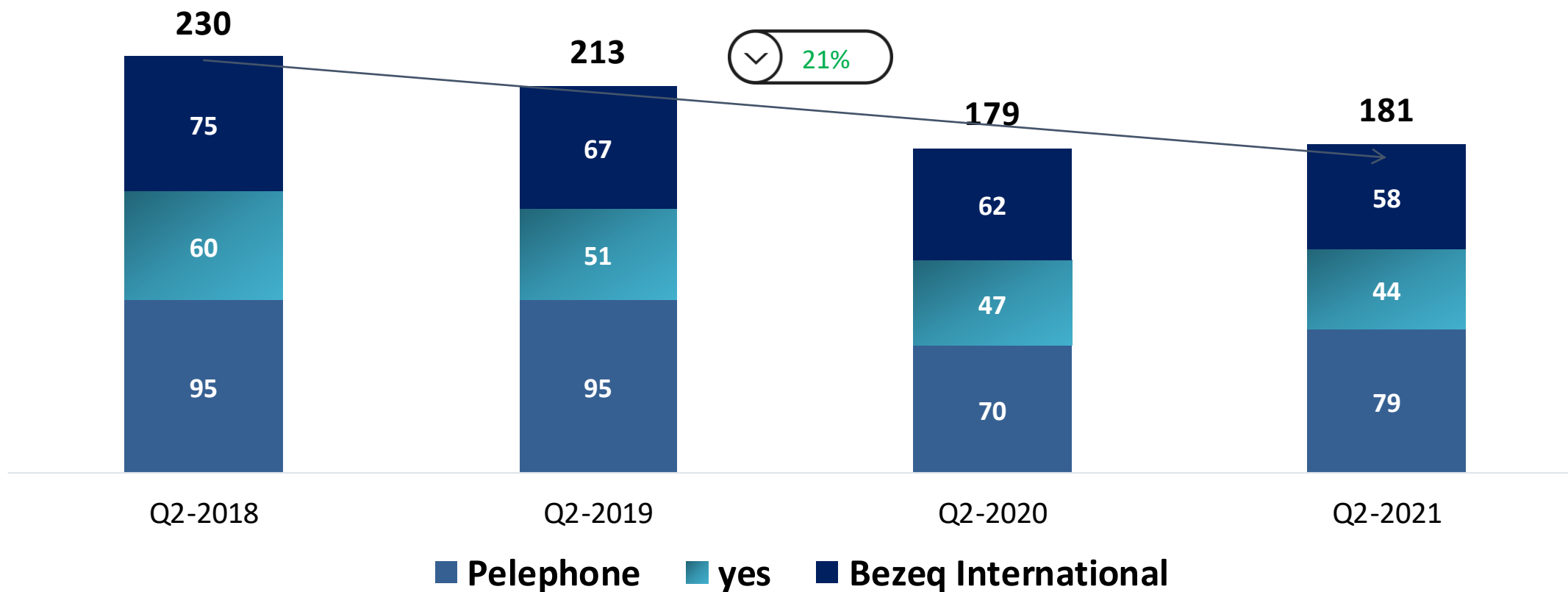


**IP
Broadcasting**



New Generations of Technologies in all Subsidiary Companies

Subsidiary Companies - 21% Decrease in Salary Expenses* | NIS million



Streamlining measures led to a 21% y-o-y decrease in salary expenses from Q2-2018 to Q2-2021

The Next Generation of Cellular in Israel

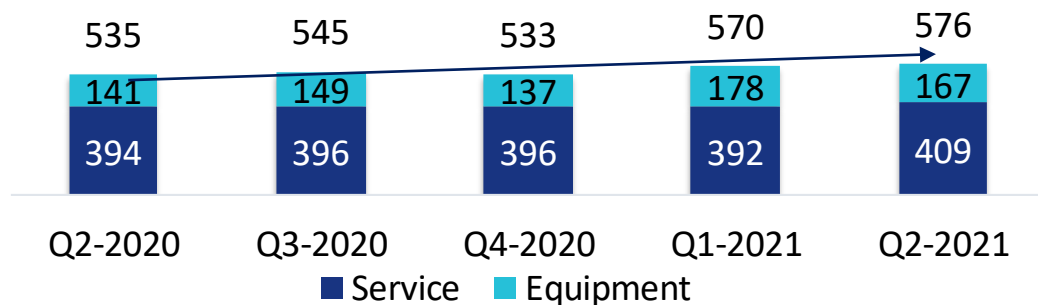
- Gradual deployment of 5G network
- Diverse handsets and plans
- Over 400k subscribers today with “5G” plans contributing to increase in ARPU
- Data communications and private broadband networks for businesses and organizations
- Exclusive use of frequencies gives Pelephone a competitive advantage



Pelephone was the first company to launch and operate its 5G network in Israel

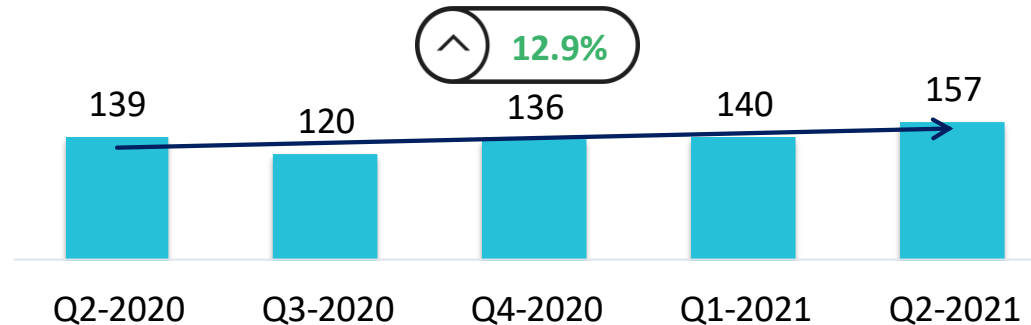
Pelephone – Key Operational & Financial Metrics

Revenues (NIS million) ↑ 7.7%



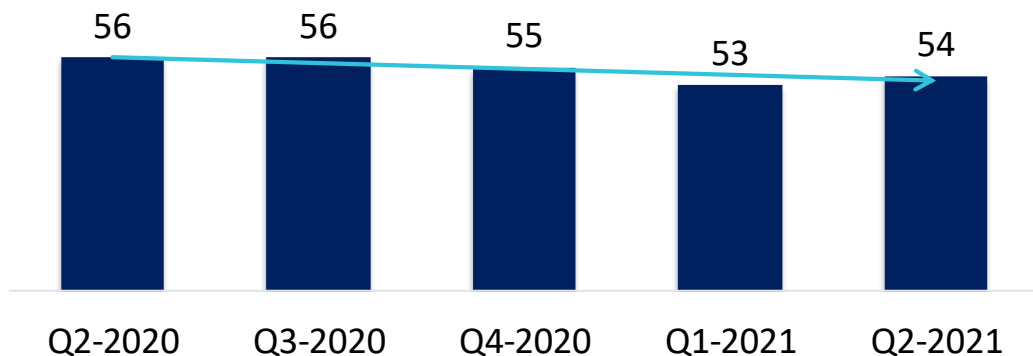
Highest quarterly revenues since 2019

Adjusted EBITDA* (NIS million) ↑ 12.9%



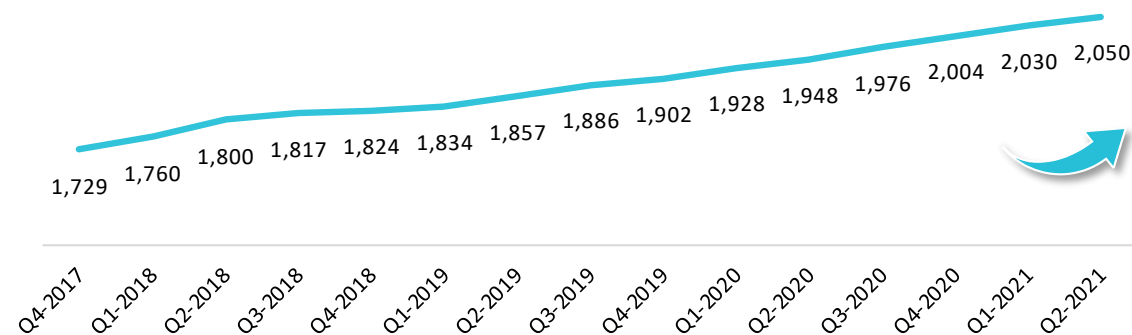
Y-o-Y and q-o-q growth in Adjusted EBITDA

ARPU (NIS) ↓ 3.6%



Stable with Q-o-Q growth

Postpaid Subscribers (thousands)



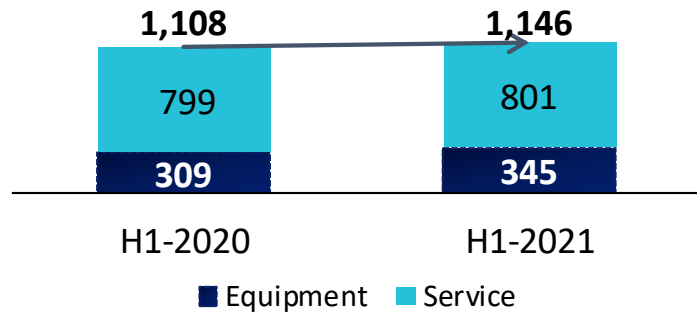
Subscriber growth for the fifth consecutive year moderated revenue decrease



Pelephone – Key Financial Metrics* (H1-2021) | NIS million

Revenues

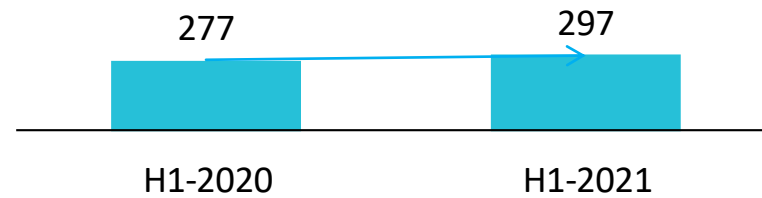
↑ 3.4%



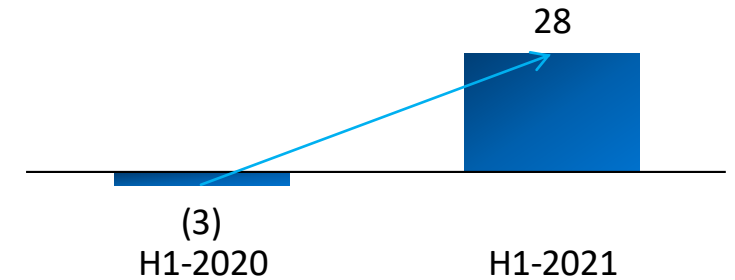
- Equipment revenues increased due to launch of new iPhone
- Service revenues – Increase in roaming revenues and growth in postpaid subscribers, including 5G, partially offset by a decrease in revenues from incoming calls

Adjusted EBITDA*

↑ 7.2%

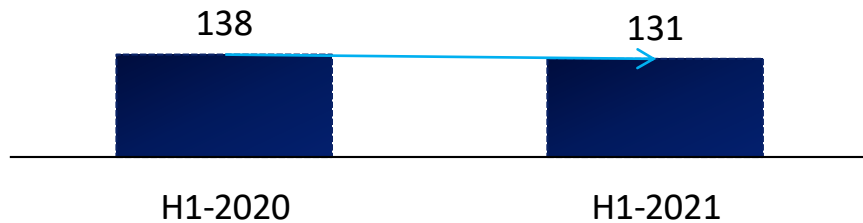


Adjusted Net Profit*

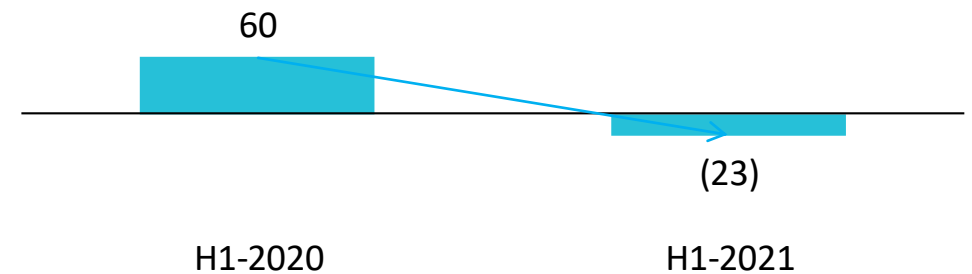


Gross Capex

↓ 5.1%



Free Cash Flow



yes – Continued Subscriber Growth and IP Migration

Improved customer experience along with savings in expenses



Continued subscriber growth

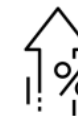


Significant improvement in cash flow with positive cash flow in H1-2021



yes+ LIVE

Groundbreaking technology for watching live broadcasts without delay



33% of yes customers watch TV through IP broadcasting

Leader in original production
yes continues to lead in production of local content



Savings in transition from expensive set-top boxes to cheaper streamers

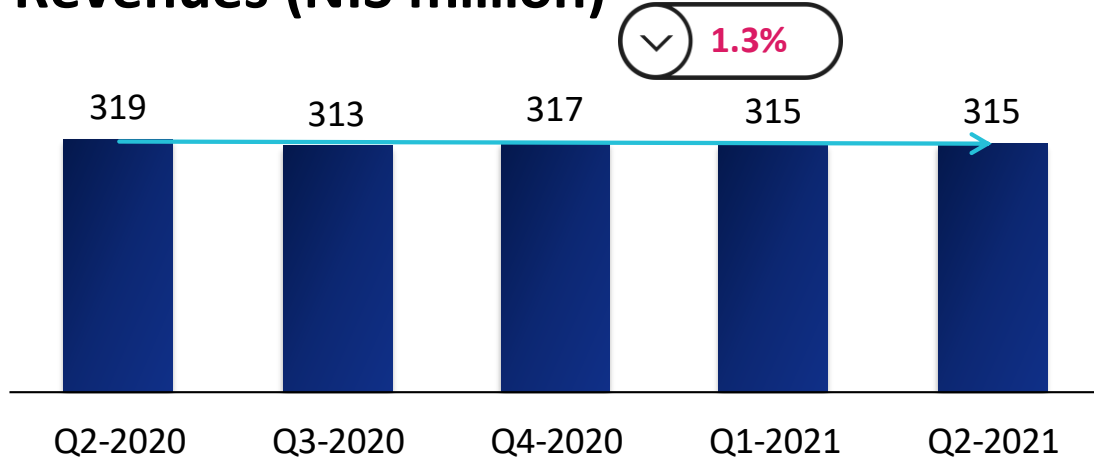


Savings in satellite costs after full transition to IP

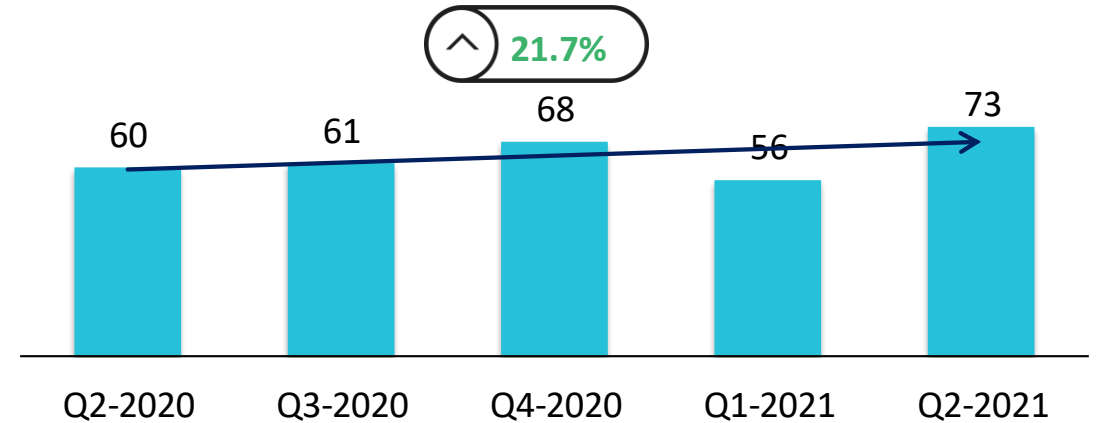


yes – Key Operational & Financial Metrics

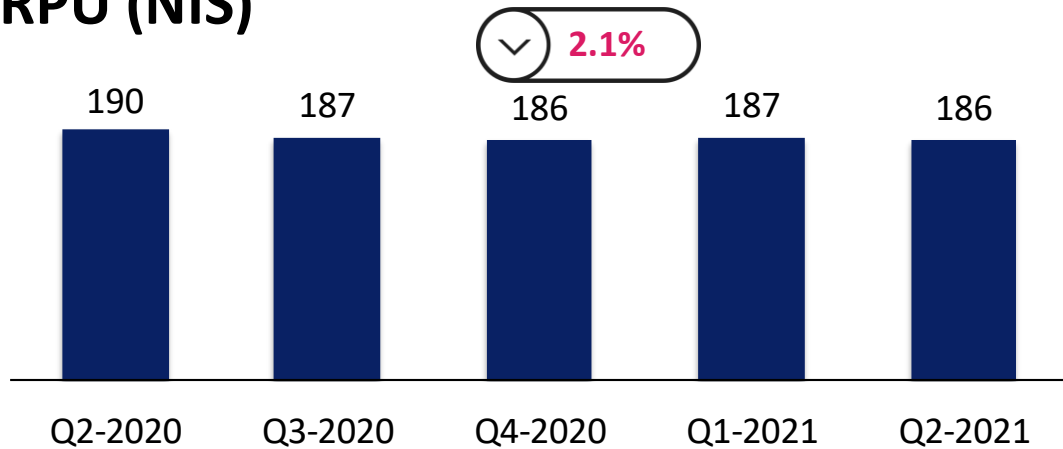
Revenues (NIS million)



Adjusted EBITDA* (NIS million)

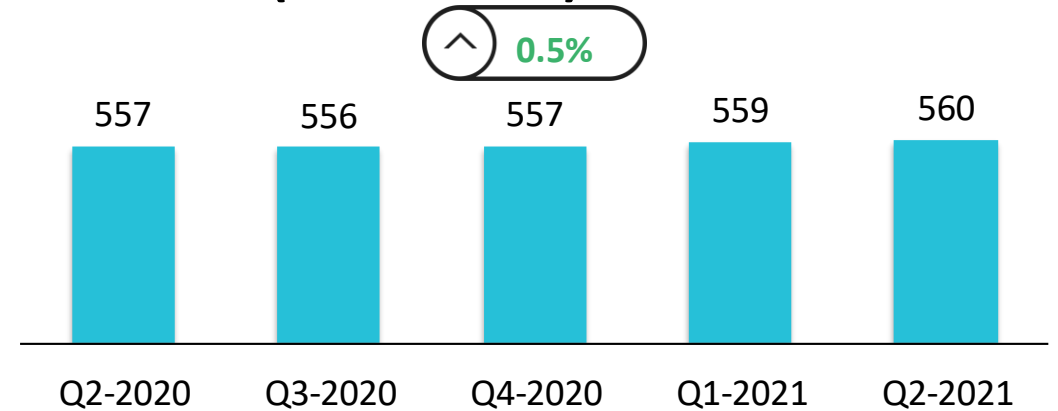


ARPU (NIS)



Stable ARPU over last few quarters

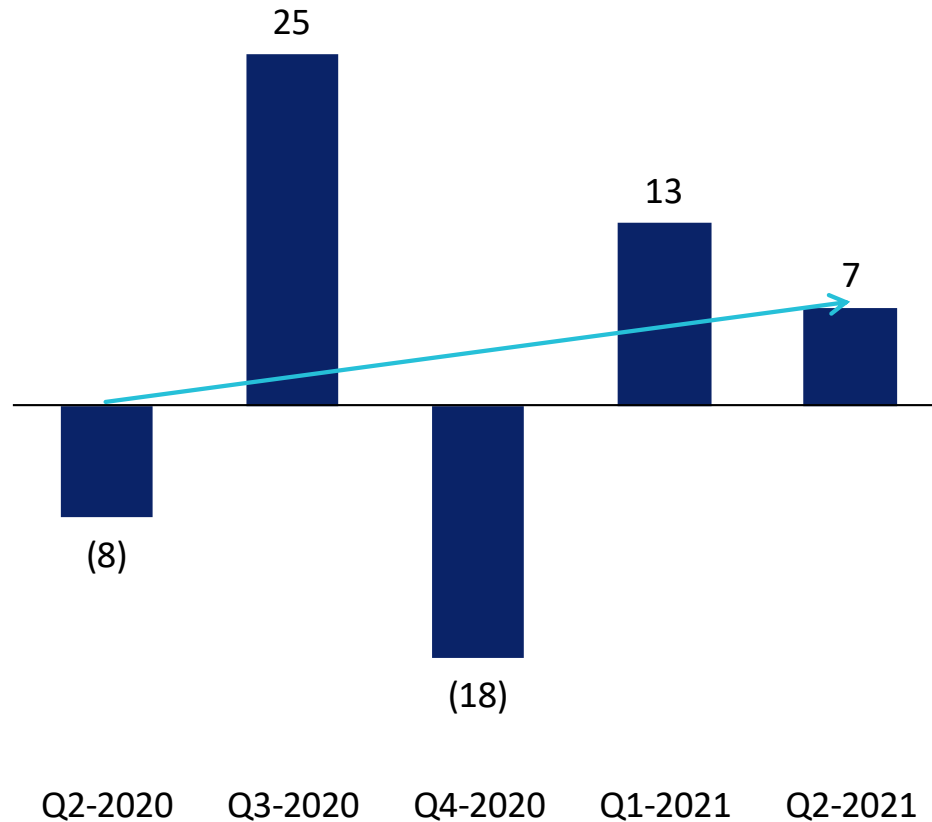
Subscribers (thousands)



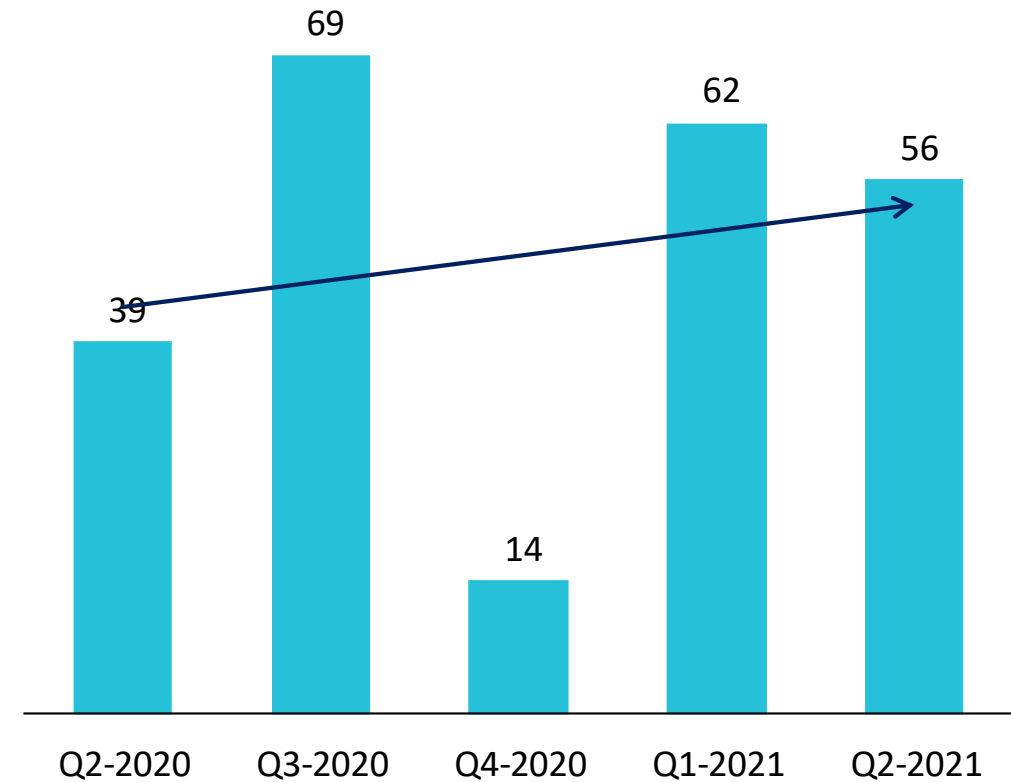
Increase in demand for STING and yes+ led to increase in subscribers

yes – Significant Improvement in Cash Flow | NIS Million

Free Cash Flow



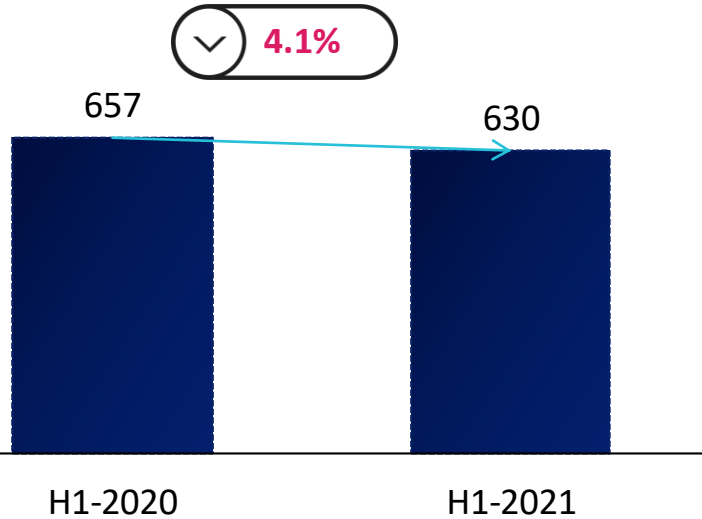
Operating Cash Flow



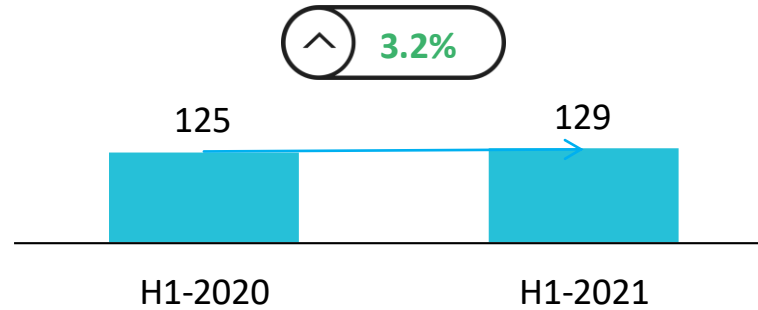
After a number of years, yes posts significant improvement in cash flow with positive free cash flow

yes – Key Financial Metrics* (H1-2021) | NIS million

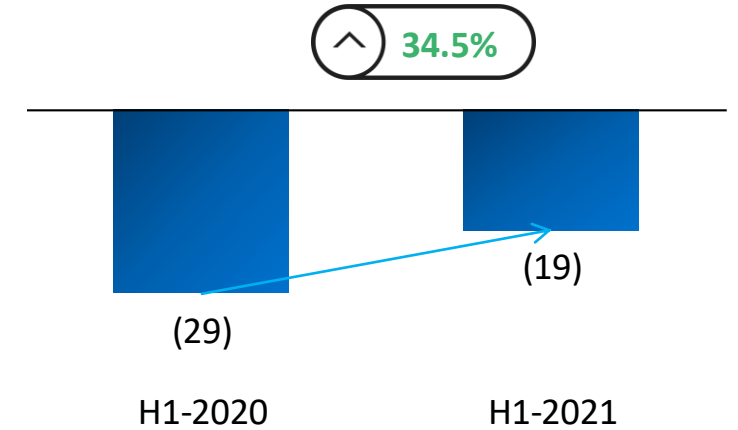
Revenues



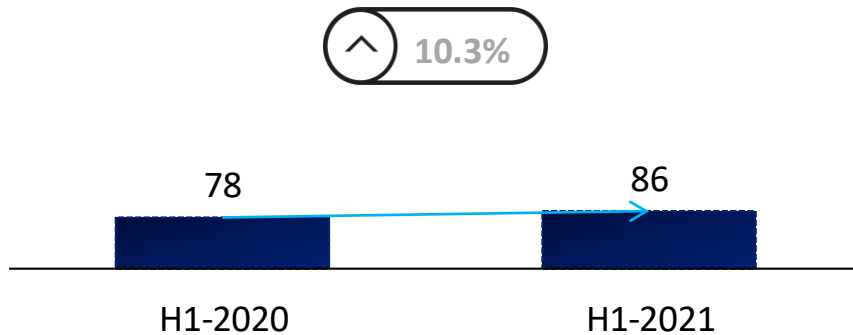
Adjusted EBITDA*



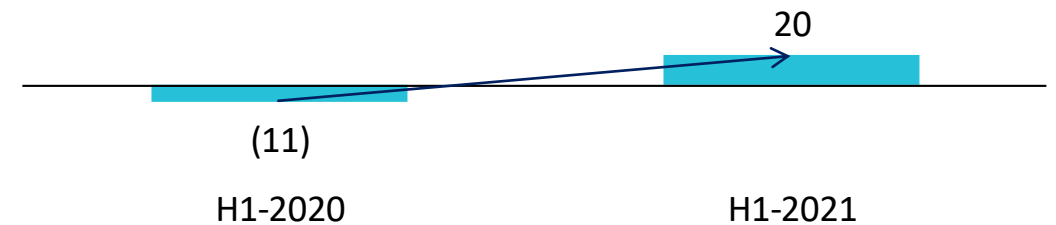
Adjusted Net Profit*



Gross Capex



Free Cash Flow



Bezeq International – Leader in Business Solutions – Significant Operator in a Growing Market

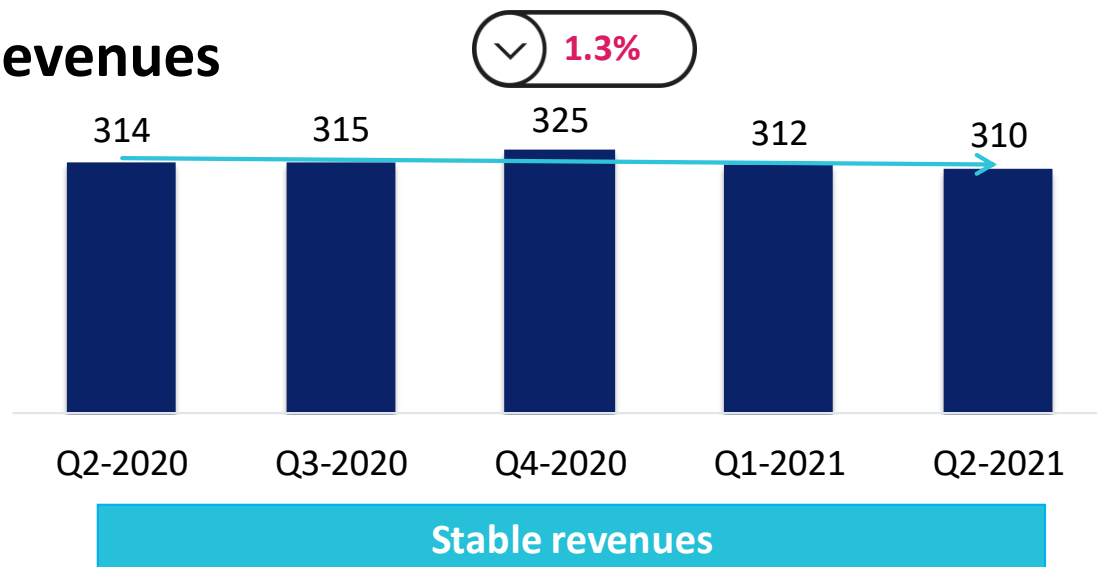
Wide Range of Business Solutions

- Wide range of data centers in Israel
- Growth in cloud solutions (business applications) and service contracts
- Growth in business and international data services
- Continued expansion through agreements with a wide variety of international business customers
- Winning significant and leading tenders in Israel
- Launch of FIBER+ plans over fiber optics

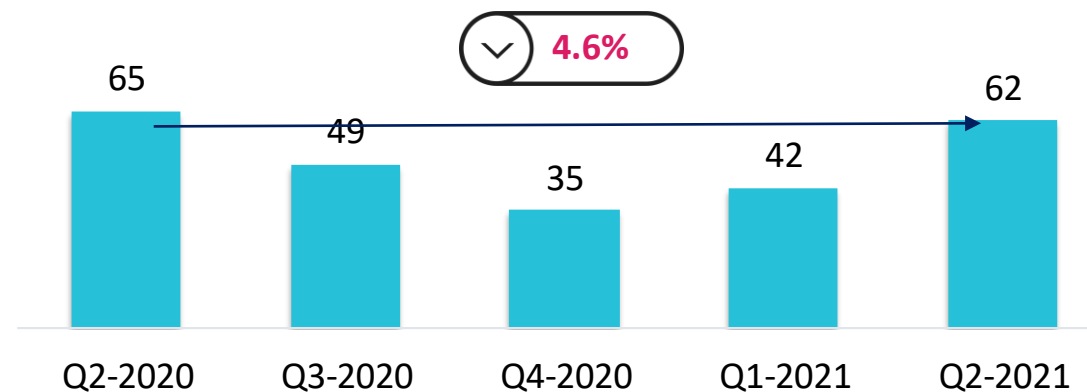


Bezeq International – Key Operational & Financial Metrics | NIS Million

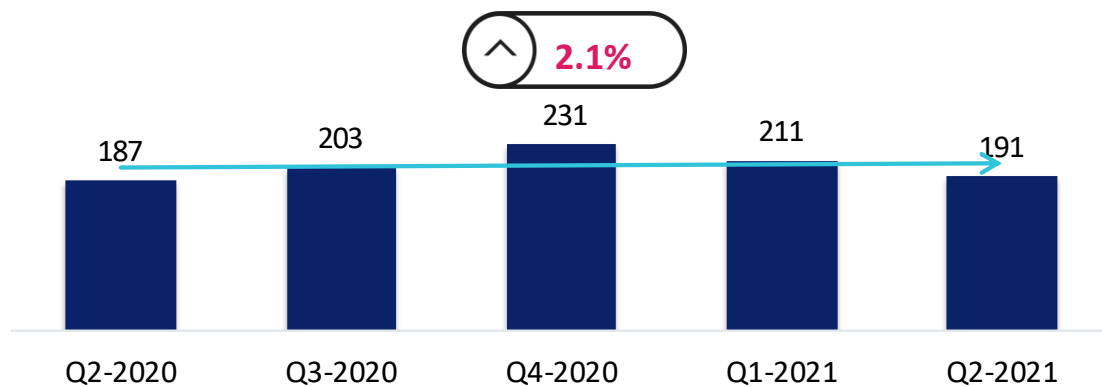
Revenues



Adjusted EBITDA*

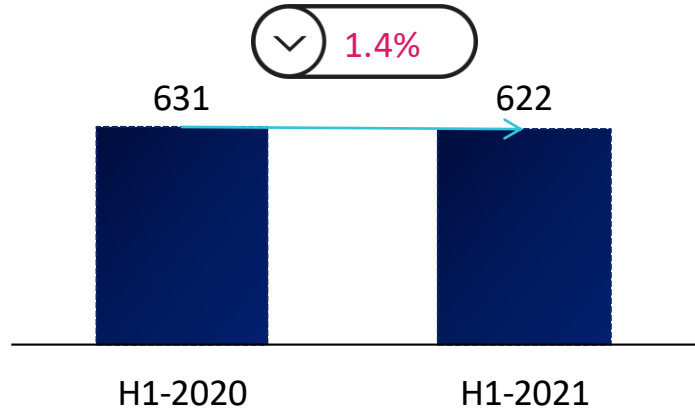


Operating Expenses (excluding depreciation and other expenses)



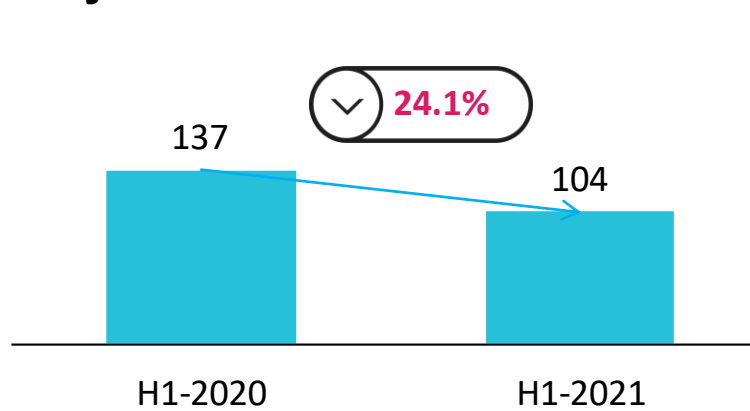
Bezeq International – Key Financial Metrics* (Jan-Jun) | NIS million

Revenues



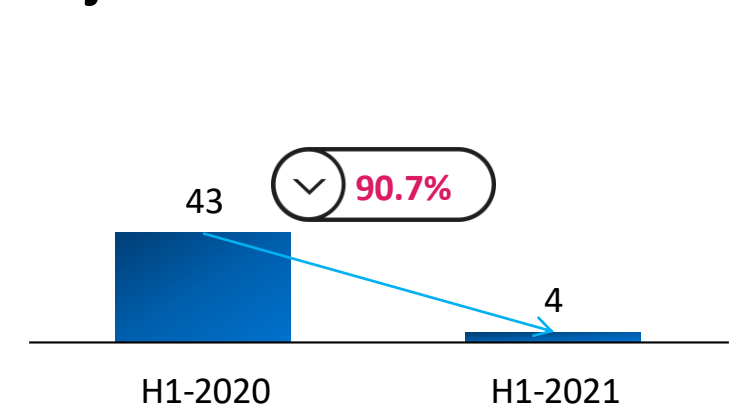
Stable revenues impacted by a decrease in ISP revenues partially offset by an increase in revenues from business services

Adjusted EBITDA*

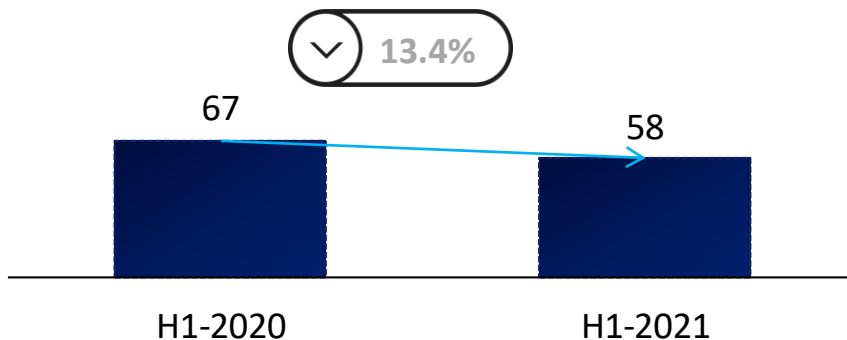


Decrease in ISP profitability and one-time credit in 1H 2020 related to update in wholesale Internet tariffs

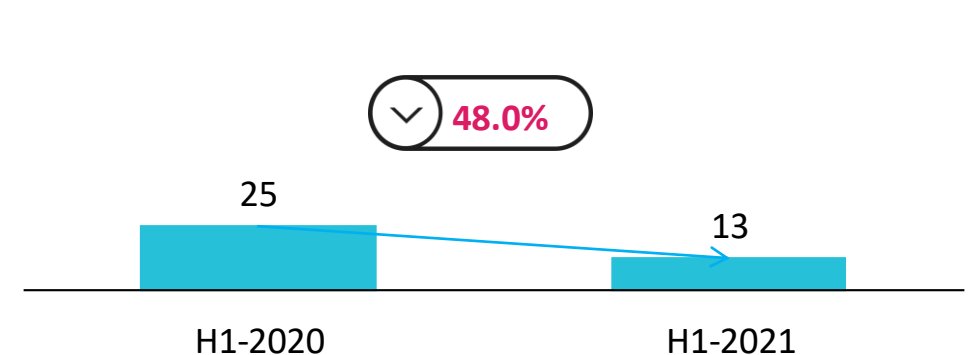
Adjusted Net Profit*



Gross Capex



Free Cash Flow



Bezeq Group - Summary



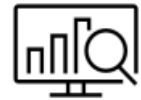
Strong financial results – increase in revenues and net profit



Significant investment in advanced infrastructures



Financial strength – significant decrease in net debt



Structural change – growth potential and streamlining



Thank you

For more information please visit

ir.bezeg.co.il