



BEZEQ
(TASE: BEZQ)

Investor Presentation
Q3 2016 Results

Forward-Looking Information and Statement

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.

Key Data



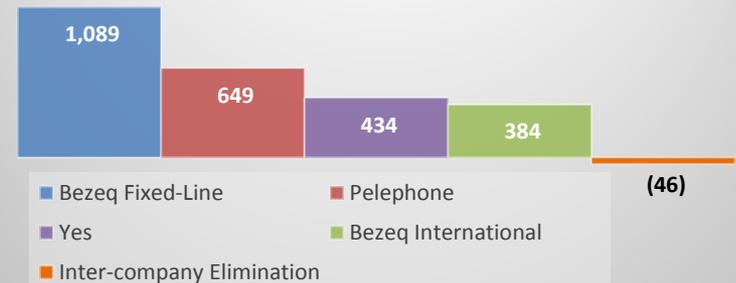
BEZEQ

The largest provider of telecommunications services in Israel

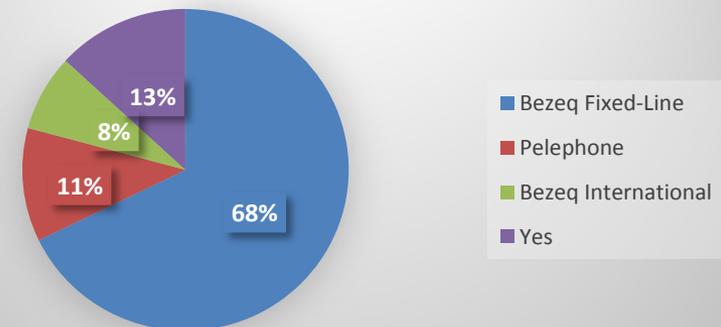
- LTM Revenue: NIS 10.2 billion
- Diversified portfolio in all TMT sub-markets
 - 2.14 million fixed customer lines
 - 2.35 million cellular customer lines
 - 1.54 million broadband lines
 - 618,000 Pay-TV customers
- Highly dynamic telecommunications market combining high penetration rates with considerable growth
- Strong financials in terms of profitability, cash generation and capital structure
- Cash dividends of NIS 1.441 billion distributed to shareholders in 2016

Group Revenues - Q3 2016

(Total Revenues of NIS 2.510B)



Contribution to Group EBITDA Q3 2016



The Bezeq Advantage



Strong market positions in all telecom sectors

- Leading brand in the Israeli telecom market
- LTM data reflects strong gains in broadband subscribers
- Rich portfolio of advanced and innovative services
- High quality customer service



Advanced nationwide infrastructure

- Lean operations supported by a newly built nationwide NGN converged network
- Long-term commitment to investing in state-of-the-art infrastructure and cutting-edge technologies



Strong and solid financials enabling sector leading profitability, cash generation and dividend policy

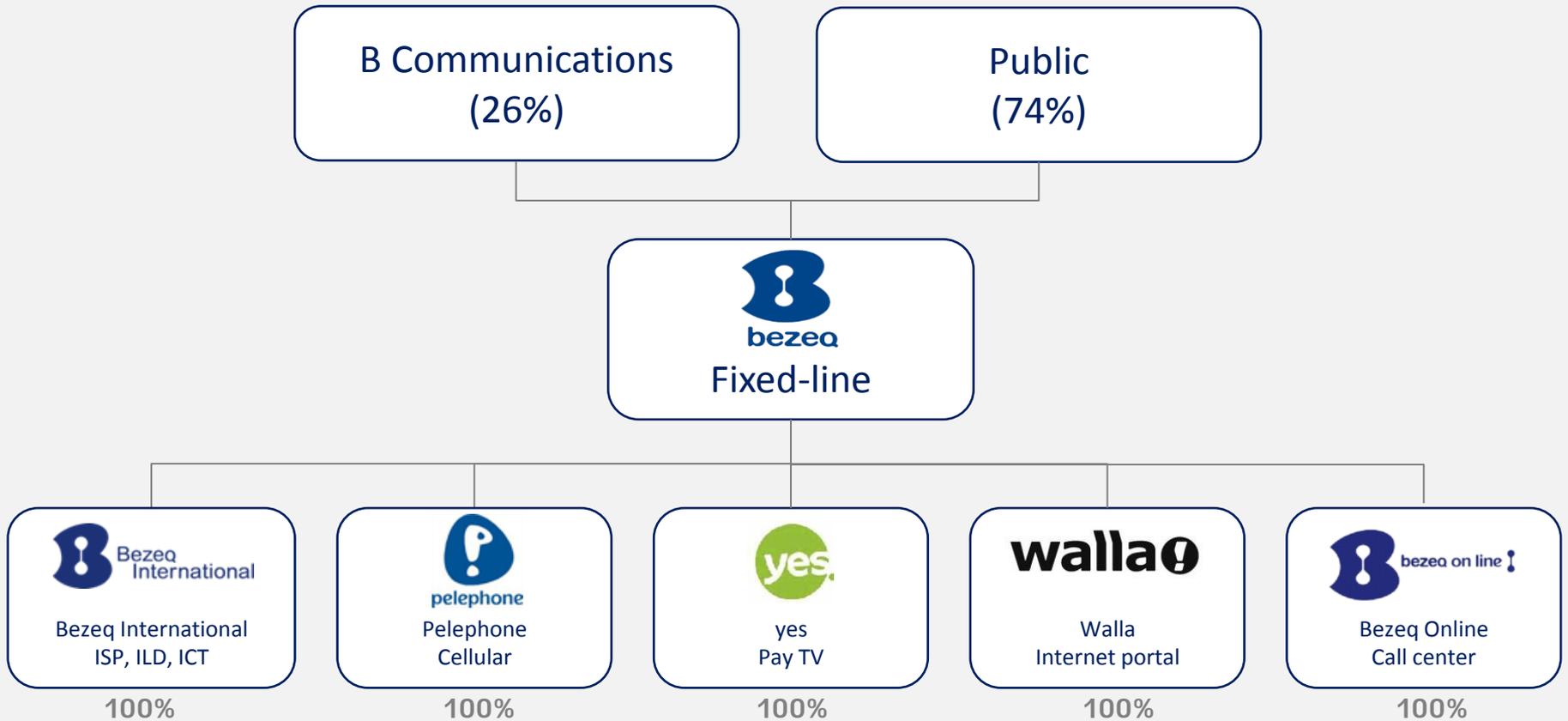
- Well balanced capital structure
- Deregulation policy offers future upside



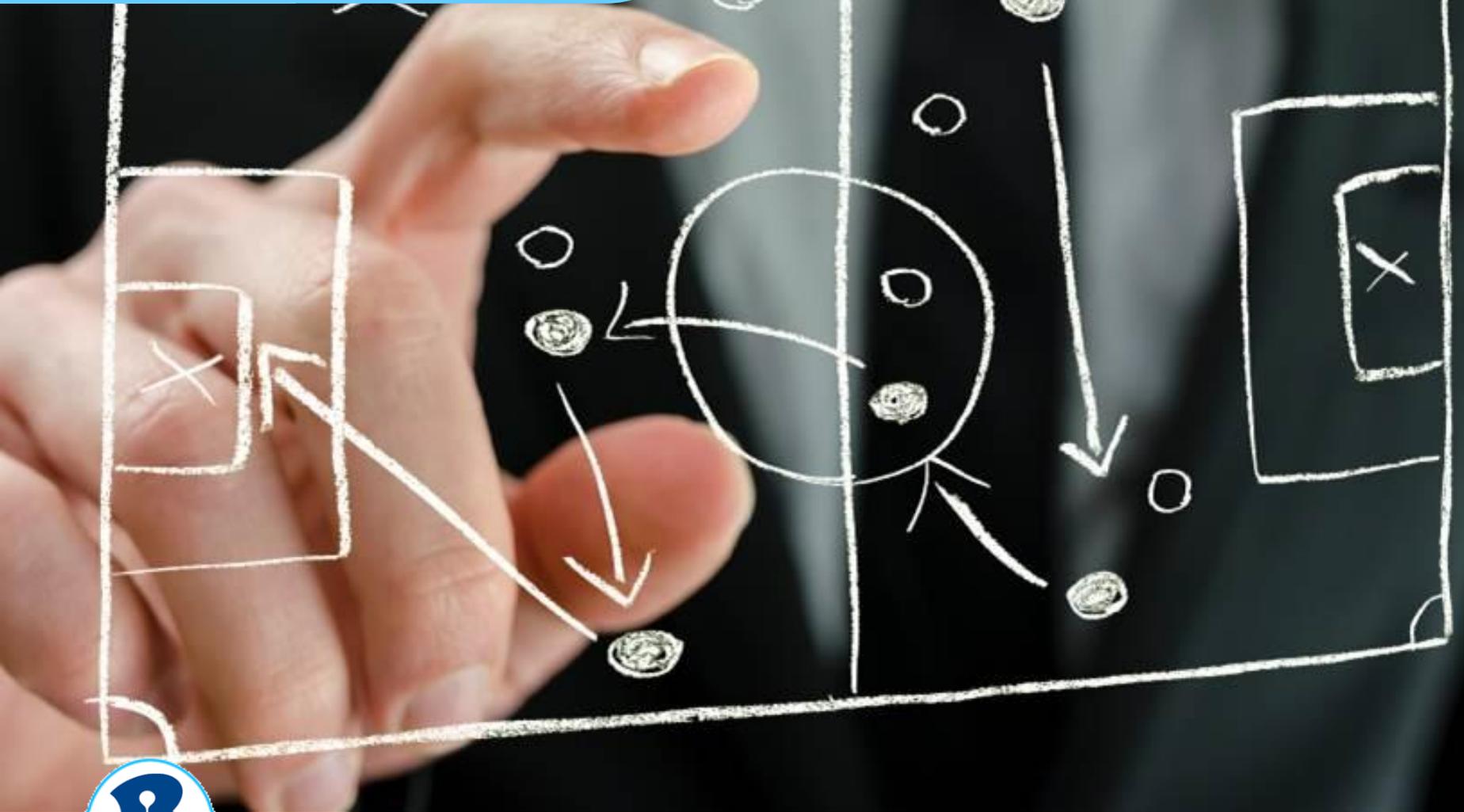
Capable, stable and experienced management team

Bezeq Group

Wide diversification of advanced telecom services



Competitive Environment



Israeli Telecom Market

Independent Players					Bezeq Market Share	
	 	 			56% / 74%	Fixed line telephony (private/business)
  	Wholesale	Wholesale			68%	Internet Infrastructure (retail)
	 (OTT)	X	 (Cable)	 (Satellite)	44%	TV
 		 			44%	ISP
 		 			26%	Cellular

Investments in Advanced Infrastructure

Fixed Line



- Nationwide coverage of FTTC, all IP converged infrastructure
- High quality backhauling network for ISP services
- FTTB rollout covers ~1.5M households

Telephone

HIGH SPEED GSM+

HSPA/LTE

- HSPA (High Access Packet Speed) cellular technology. Wide deployment of LTE 4G network.
- Essential to accessing higher value segments of the mobile market
- Strong platform for rising Smartphone demand and advanced data services

Bezeq International



- Direct ownership of modern and high-speed submarine cable system deployed between Israel and Europe
- Potential for ongoing capacity increases at low incremental cost

Regulatory Opportunities & Challenges

- **Removal of structural separation**
- **Introduction of resale telephony market**
- **Increased flexibility in retail operations**



Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM



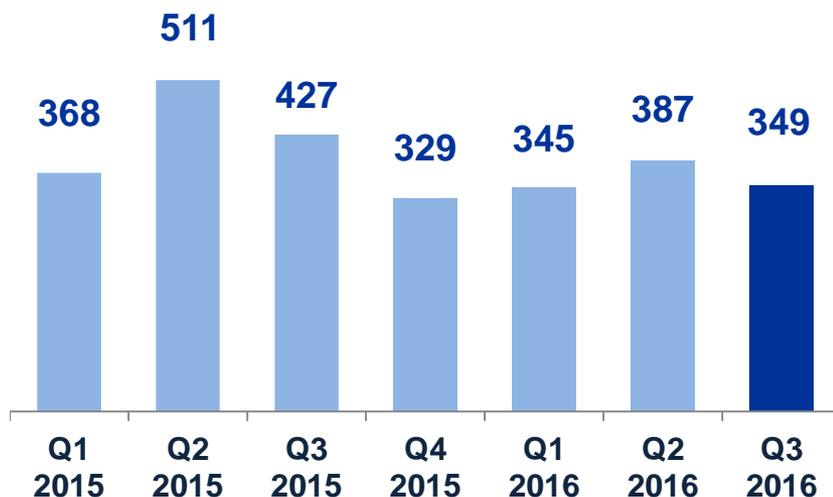
Consolidated EBITDA
NIS MM



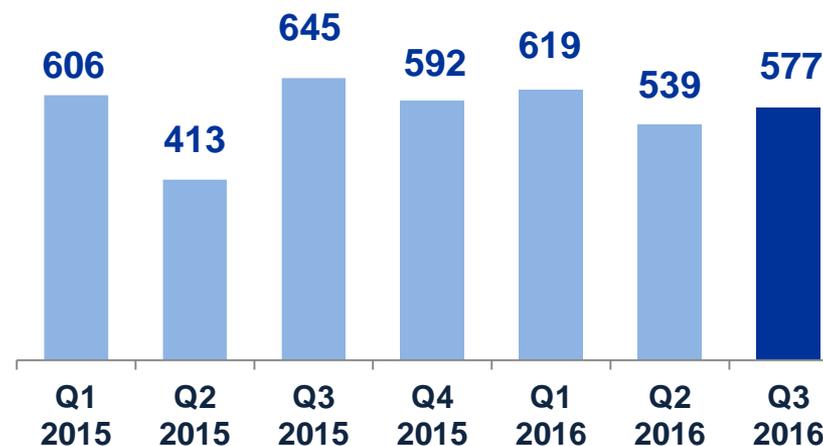
- Consolidated revenue in Q3 2016 decreased 3.5% y-o-y due to lower revenues in all of the group segments and primarily at Telephone.
- EBITDA in Q3 2016 decreased 6.1% to NIS 1.041 billion for a margin of 41.5%.

Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx
NIS MM



Consolidated Free Cash Flow⁽¹⁾
NIS MM



1. Free cash flow defined as Cash Flow from Operations – Net CapEx

- Strong free cash flow generation in Q3 2016 of NIS 577, representing a 7.1% increase q-o-q.

Bezeq Group – 2016 Updated Guidance

Based on the information available to the Group today, the Bezeq Group updated its outlook published in the Periodic Report for the year 2015, regarding its free cash flow for the year 2016 as follows:

- Free cash flow is expected to be approximately NIS 2.2 billion

There is no change to the Group's outlook for net profit and EBITDA, after adjusting for the effects of provisions for the early retirement of employees as well as collective labor agreements that were signed in the amount of NIS 140 million (including a provision of NIS 78.5 million at Bezeq Fixed-Line).

In addition, a decrease in the corporate tax rate, if approved before December 31, 2016, will result in a reduction in the Company's deferred tax asset as well as a decrease in net profit to shareholders for the year 2016.

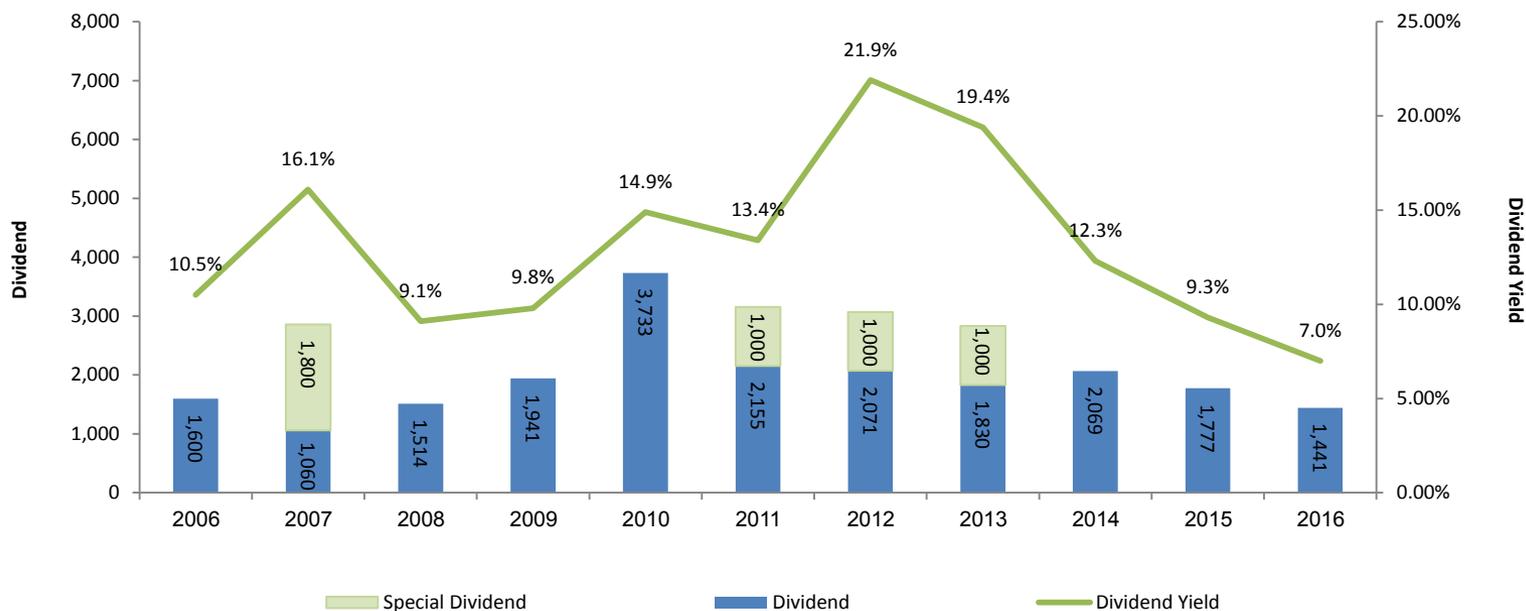
The Company's forecasts detailed above are forward-looking information, as defined in the Securities Law, and are based on assessments, assumptions and expectations of the Company, including the following:

a. The forecasts do not include additional effects, insofar as there are any, of a provision for the early retirement of employees and/or the signing of a collective labor agreement beyond the above mentioned.

b. The forecasts are based, among other factors, on the Group's assessments concerning the competition in the communications market and the regulation of the industry, as well as the economic situation in Israel, and consequently, the Group's ability to implement its plans for 2016. Actual results may differ from those assessments, taking into account changes in the above mentioned factors and in the business conditions as well as in the impact of regulatory decisions, technological changes, developments in the communications market, etc., or realization of risk factors detailed in the Group's periodic report for the year 2015.

Sector Leading Dividend Policy

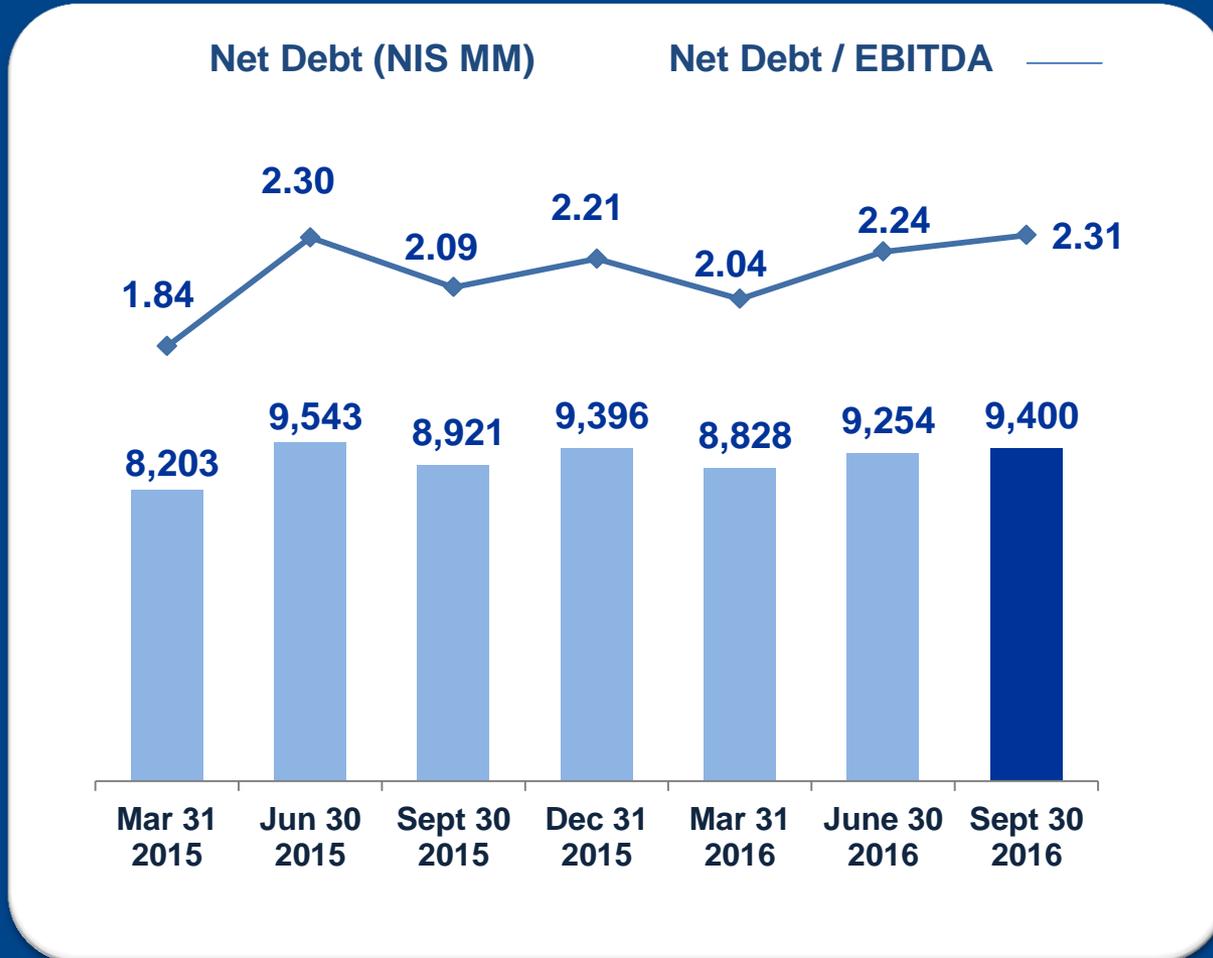
Bezeq Group Dividends by Year (NIS MM)



Dividend Policy: 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis:

- Dividend Yield is based on average market cap during the period.

Bezeq Group – Net Debt*



* Includes consolidation of yes as of March 31, 2015



Fixed Line

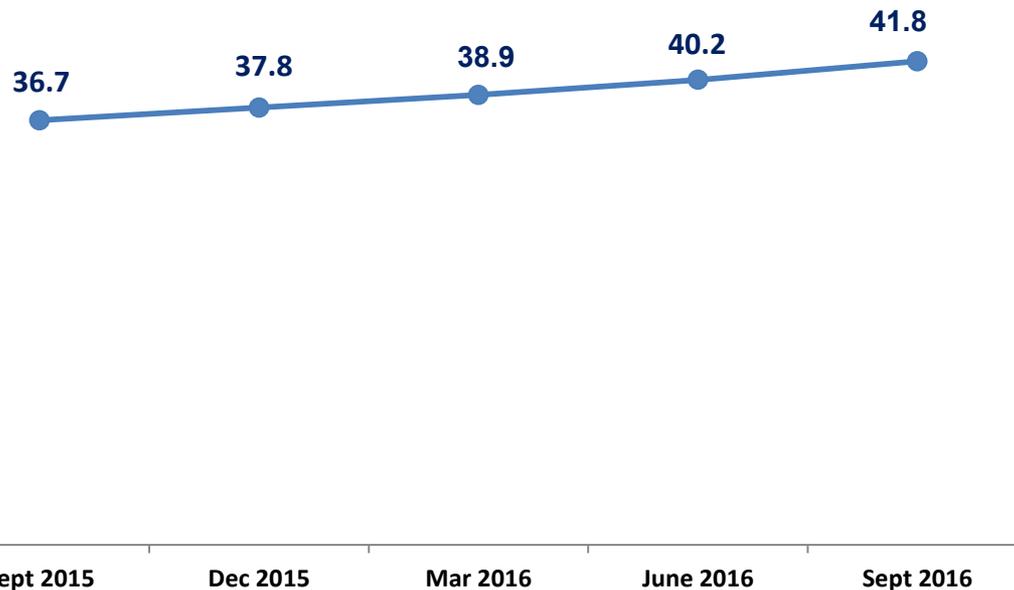
Bezeq Fixed-Line

Bezeq is uniquely positioned as the leading provider of the full range of high quality telecom products and services in Israel

- ✓ **Leading broadband provider in Israel with approximately 68% market share, growing by eight percentage points in the last three years**
- ✓ **More than 91k broadband customers added in last 12 months, representing an 6.3% increase y-o-y**
- ✓ **Broadband retail ARPU growth fueled by continuous bandwidth upgrades**
- ✓ **Leading provider of corporate telecom solutions in Israel**
- ✓ **Significant and stable business market share supported by differentiated offering**
- ✓ **Stabilizing trend in number of fixed access lines and ARPL**

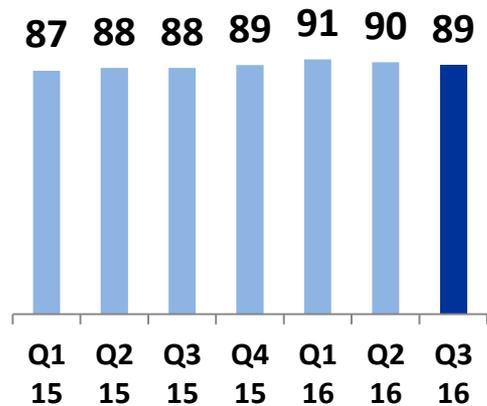
NGN enables ongoing increases in bandwidth and ARPU growth

15% year-over-year increase in average broadband speed per subscriber

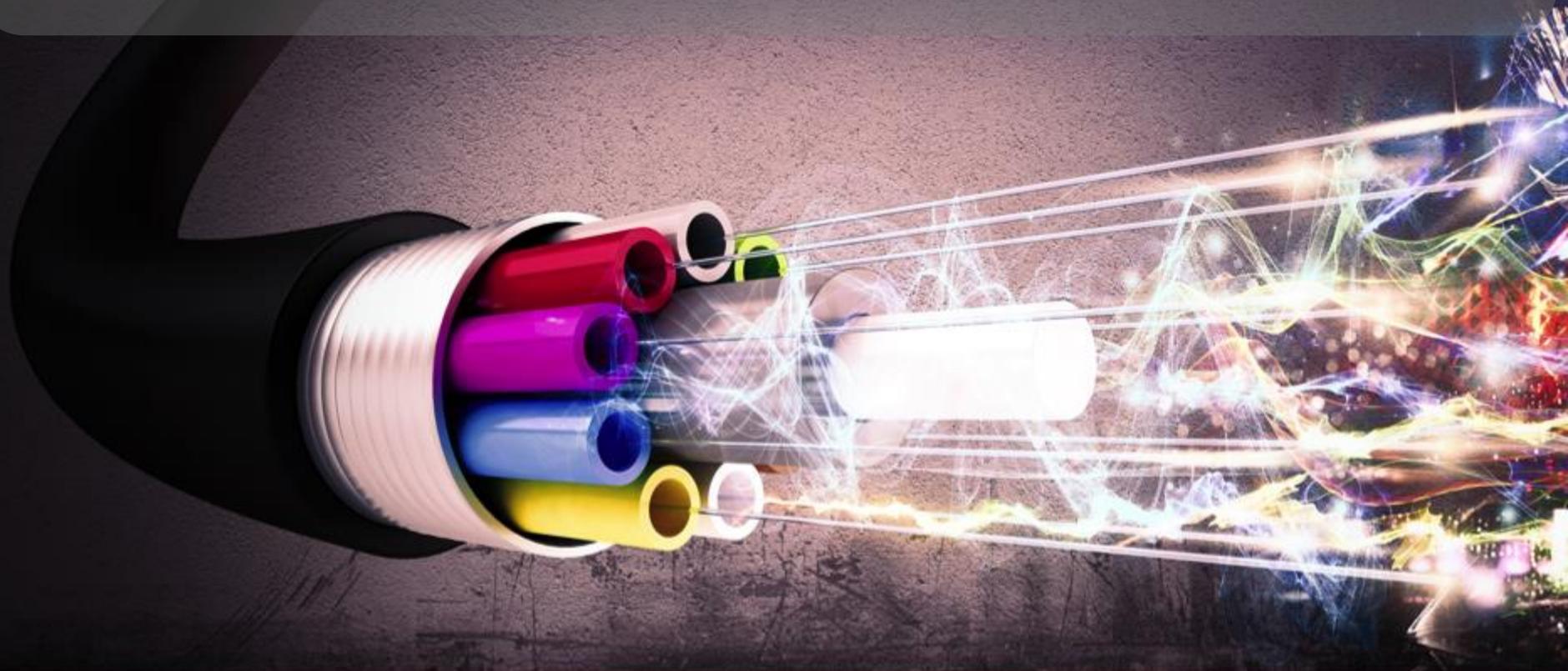


Megabits Per Second (Mbps)

Broadband Internet ARPU (NIS)



During 2016 we are conducting field trials in G.Fast and PTP technologies for the provision of ultra-fast broadband and advanced telecom services

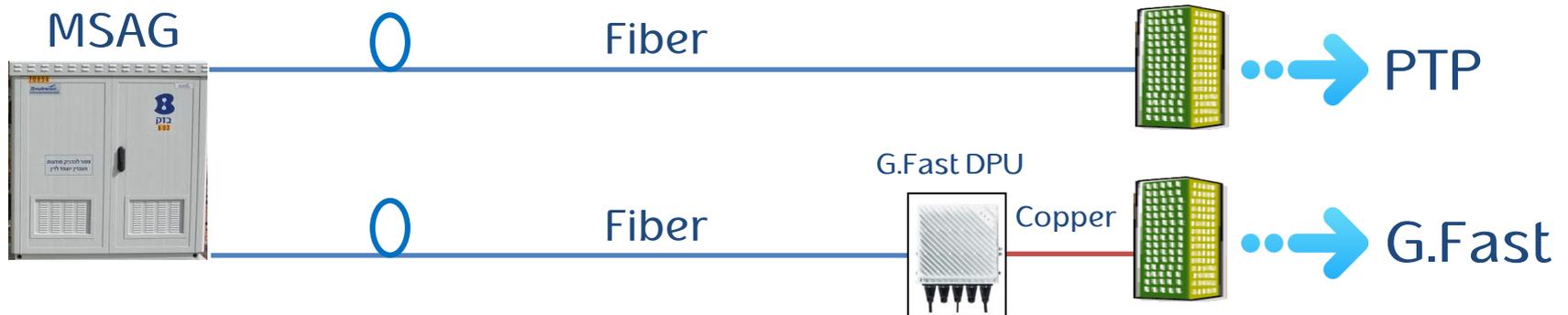


Technologies for the provision of ultra fast broadband and advanced Internet services

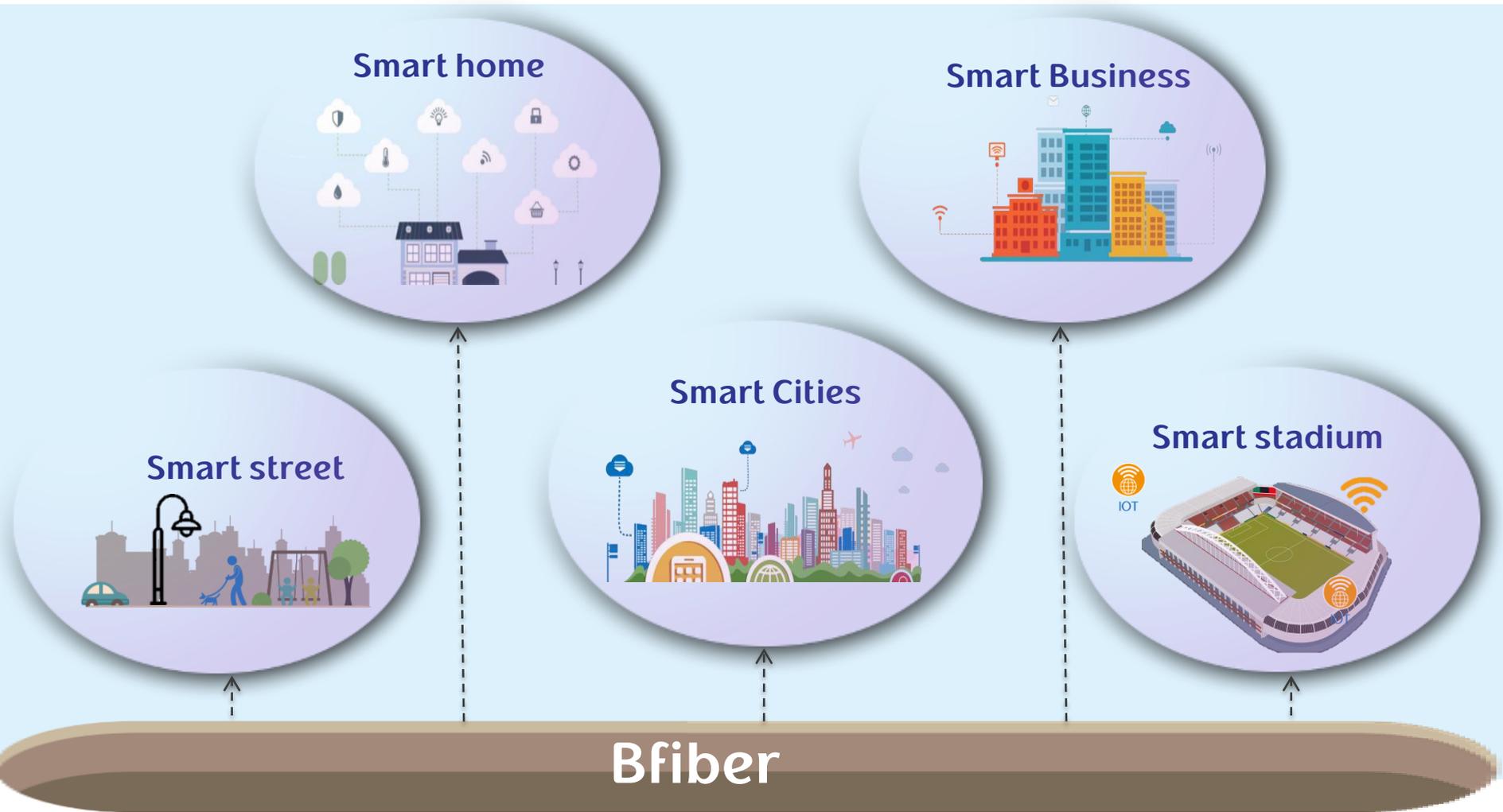
PTP



G.Fast

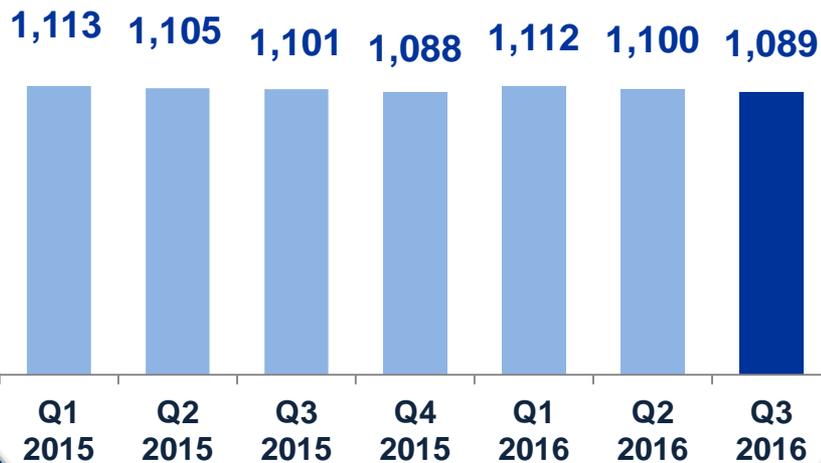


We are investing in a solid base of innovative and advanced infrastructures to support the digital lifestyle



Bezeq Fixed-Line – Revenue & EBITDA

Bezeq Fixed-Line Revenue
NIS MM



Bezeq Fixed-Line EBITDA
NIS MM



- Revenue in Q3 2016 decreased 1.1% due to a decrease in revenue from telephony services partially offset by higher revenue from broadband Internet services .
- EBITDA increased 1.6% y-o-y to NIS 707 million



Pelephone

Cellular

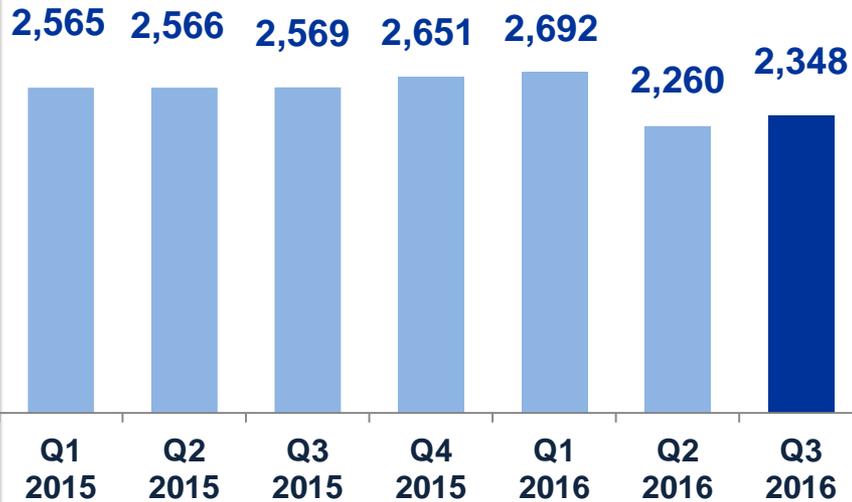


- 2.35 million cellular customers
- Nationwide HSPA network; wide deployment of 4G (LTE) network
- Pelephone private label smartphones (Gini)
- Strong platform for advanced data services
- Host of value added services (cloud, music, TV, ringtones, etc.)

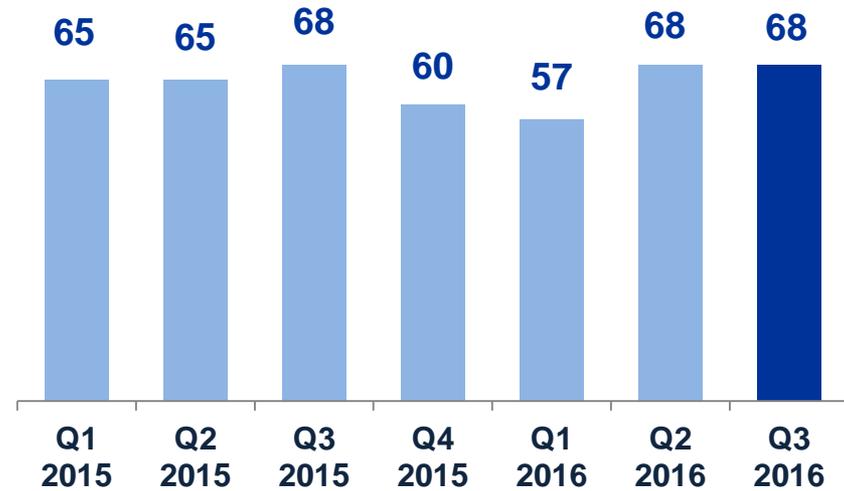


Telephone KPIs

Subscribers (in 000's)



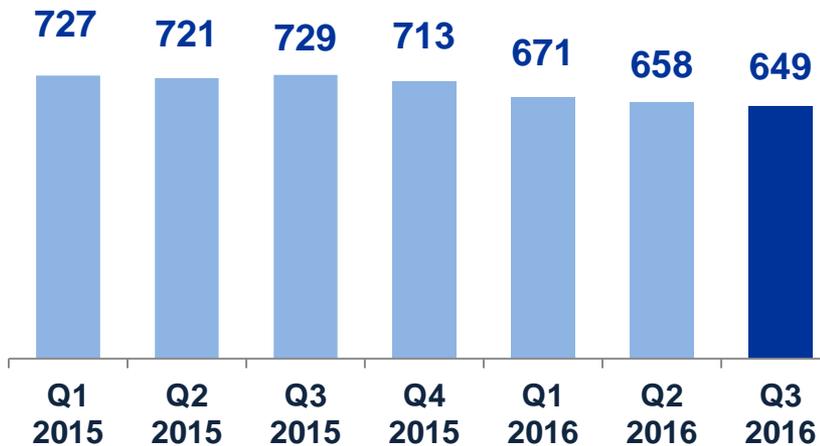
ARPU (NIS)



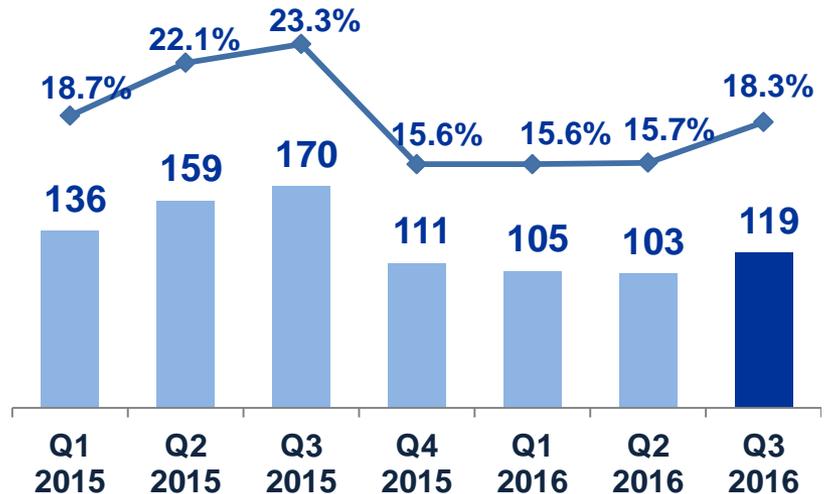
- Total subscribers continued to grow and increased 88,000 during Q3 2016.
- ARPU remained stable at NIS 68.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- Revenue and EBITDA declined 11.0% and 30.0% respectively y-o-y driven by lower revenues from cellular services primarily due to increased competition in the cellular market and the transition of existing customers to lower-priced plans with higher data volumes.

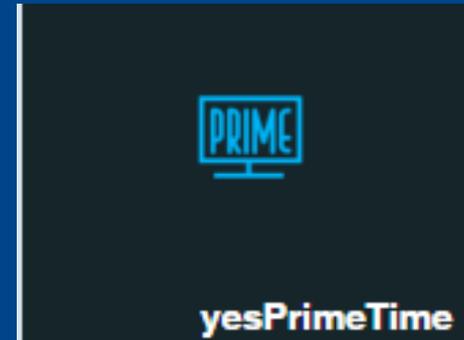


**Multi-Channel
DTH Provider**



Leading brand for content, innovative applications and customer service

- *Fully digital with nationwide deployment*
- *44% market share*
- *Growing customer base with stable ARPU, supported by increased revenues from VOD and other advanced services*
- *Rich content offering with extensive agreements with first-tier content producers*
- *Over 160 channels including 39 yes branded channels*



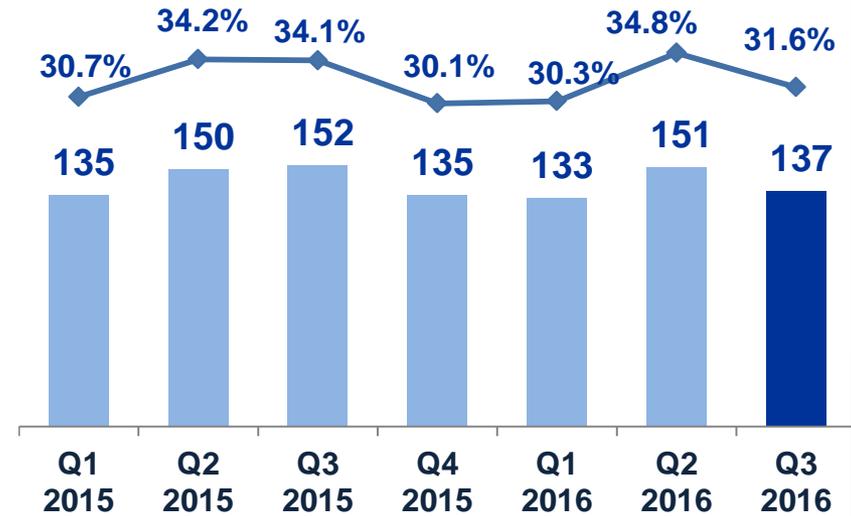
- ✓ Innovative applications based on state-of-the-art technology
- ✓ Average of three set-top boxes per household with significant proportion of HD

yes – Revenue & EBITDA

yes Revenue
NIS MM



yes EBITDA
NIS MM



- Revenues in Q3 2016 decreased 2.7% y-o-y to NIS 434 million due to a decrease of 3.0% in the number of subscribers.
- EBITDA in Q3 2016 decreased 9.9% y-o-y to NIS 137 million for an EBITDA margin of 31.6%.



ISP / ILD / ICT

Bezeq International

Israel's leading ISP & ICT telecom provider with
a differentiated product and services offering

ISP



- Leading broadband Internet service in Israel
- 44% Internet market share
- Cutting-edge infrastructure
- Customized service plans
- Advanced IP services

ILD



- International telephony
- Top-tier international agreements
- Leading customer service

ICT



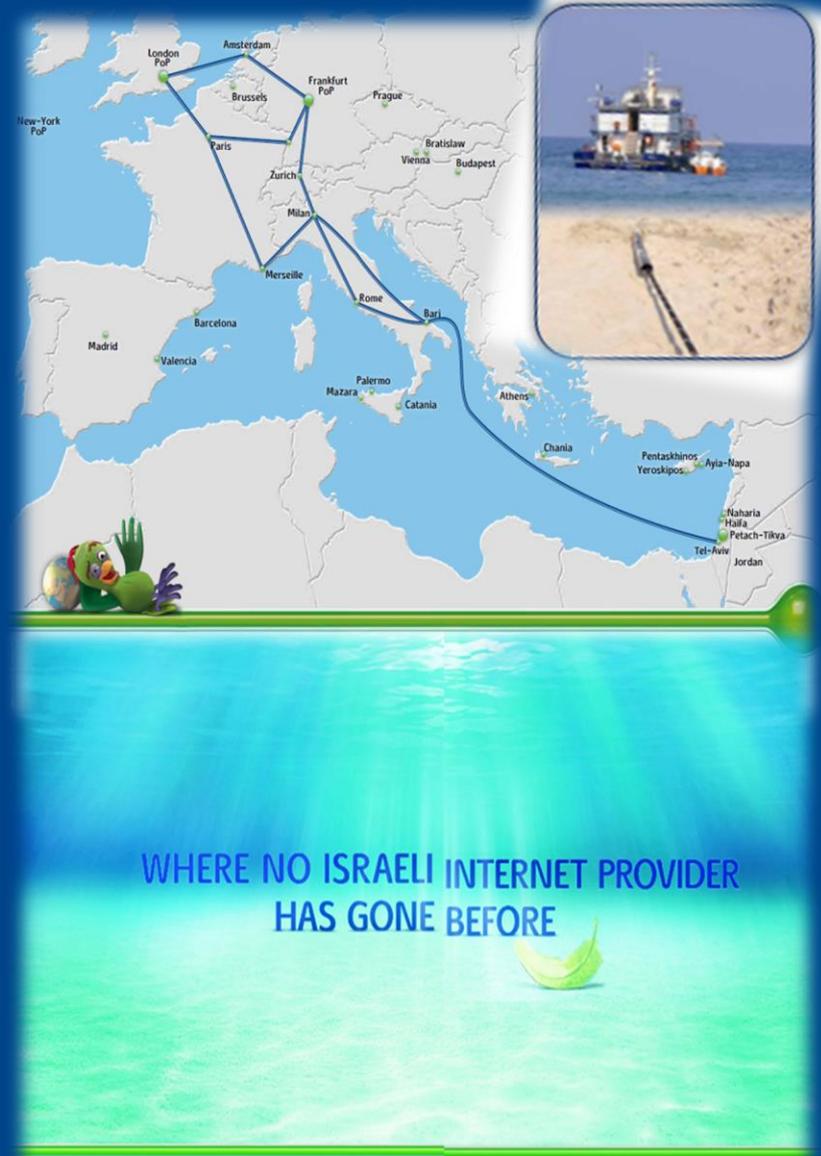
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

The only ISP in Israel with direct ownership of a submarine cable connecting Israel to Europe

Bezeq International's submarine cable provides a platform to:

- Better serve its customers via unlimited international bandwidth
- Key differentiator versus competitors
- Eliminates the need to lease capacity from third party submarine cable owners

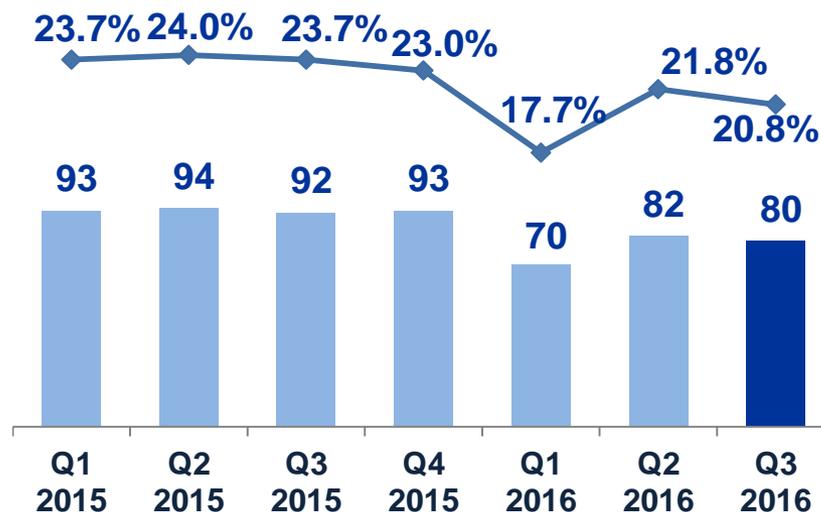


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM

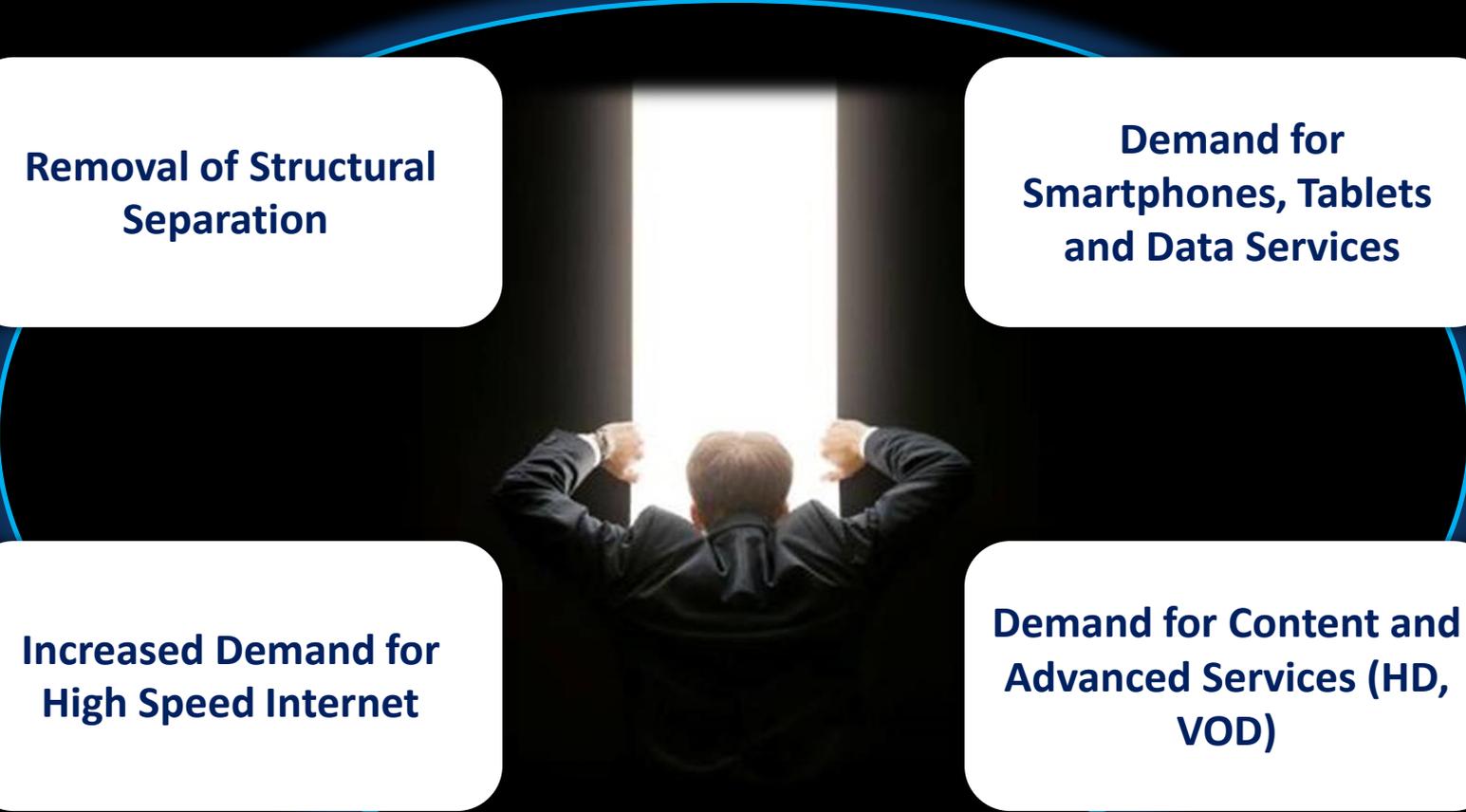


Bezeq International EBITDA
NIS MM



- Revenue in Q3 2016 decreased 1.3% y-o-y to 384 million due to a reduction in hubbing activities.
- EBITDA in Q3 2016 decreased 13.0% to NIS 80 million due to expenses relating to the implementation of the collective labor agreement.

Market Changes Create New Opportunities for the Bezeq Group



Removal of Structural Separation

Demand for Smartphones, Tablets and Data Services

Increased Demand for High Speed Internet

Demand for Content and Advanced Services (HD, VOD)

Embracing the Telecom Future

Ongoing investment in advanced infrastructure and technological leadership - LTE, Fiber, submarine cable and advanced multichannel TV technologies

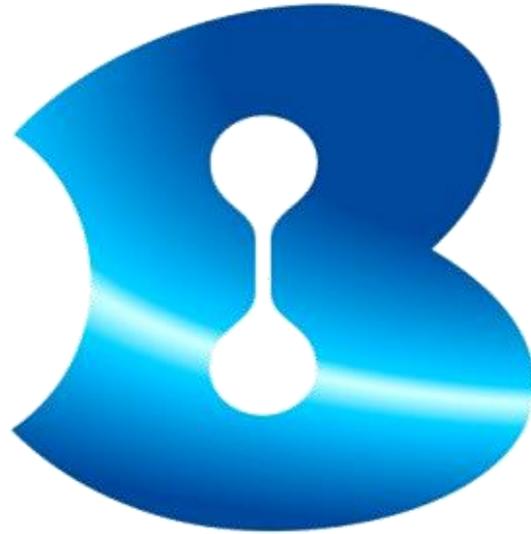
Expanding our innovative product offering to increase revenues, stickiness and expand Company's footprint - TV Everywhere, advanced STB, Cloud, Smart Home, M-Payments, M2M, etc.

Continued emphasis on the Company's brands as "premium" by means of brand differentiation in each market - leading content in television, fast quality internet with value-added services, fast and advanced cellular network

Continued investment in high quality customer service - shift towards self service, automation and proaction

Maintaining quality personnel and strong management

Increasing synergy levels between companies within the group to maximize revenues, increase efficiency and reduce expenditures



Thank You

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