



**BEZEQ
(TASE: BEZQ)**

**Investor Presentation
2016 Results**

Forward-Looking Information and Statement

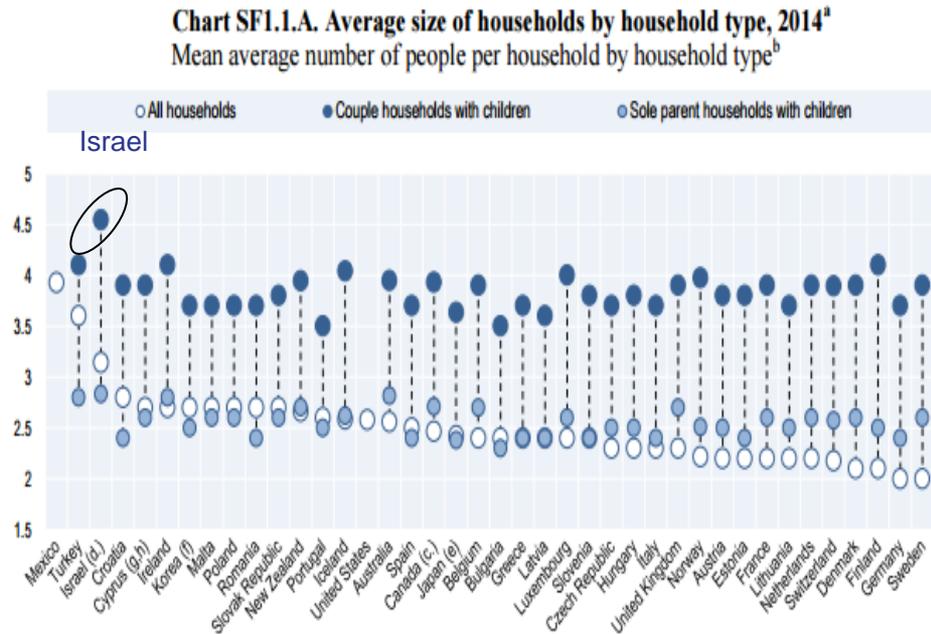
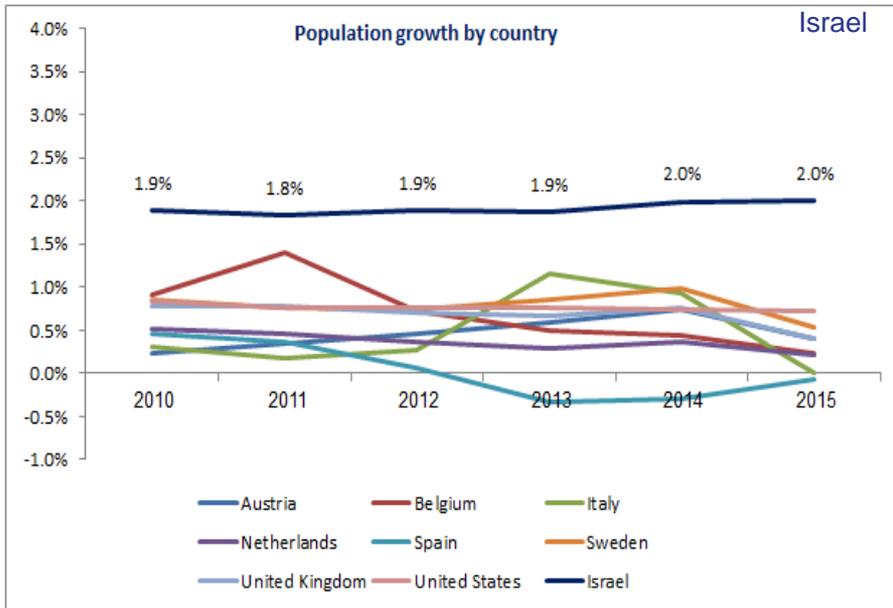
This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunications Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management’s expectations 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



Israel Demographics

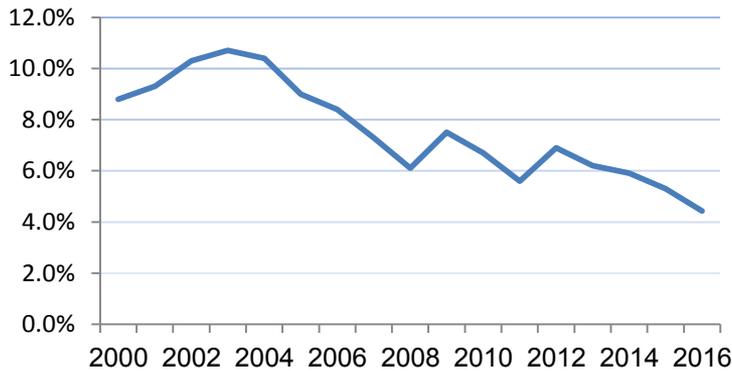
High population growth and large household size - supports market volumes and underlying growth



Source: OECD

The Israeli economy combines the advantages of developed markets and emerging economies

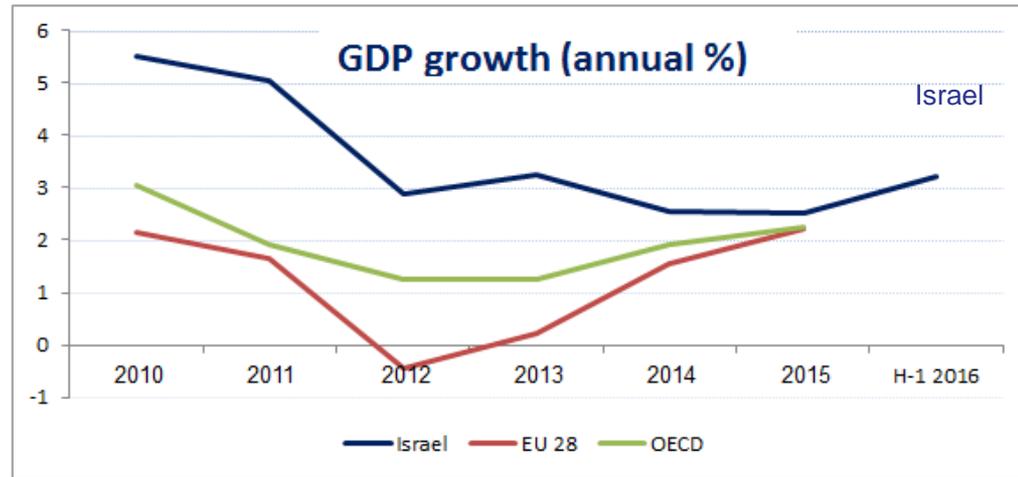
Unemployment rate



Inflation rate



Source: Central Bureau of Statistics data and Bank of Israel calculations



Fitch Upgrades Israel's Credit Rating to A+

New rating in line with those of Standard & Poor's and Moody's.

TheMarker | Nov 14, 2016 1:35 PM

S&P affirms A+ credit rating for Israel

Standard & Poor's affirms credit ratings for Israel, with a stable outlook. Finance Minister welcomes the announcement.

Rating Action: Moody's affirms Israel's A1 government rating; outlook remains stable

Global Credit Research - 11 Aug 2016

BEZEQ

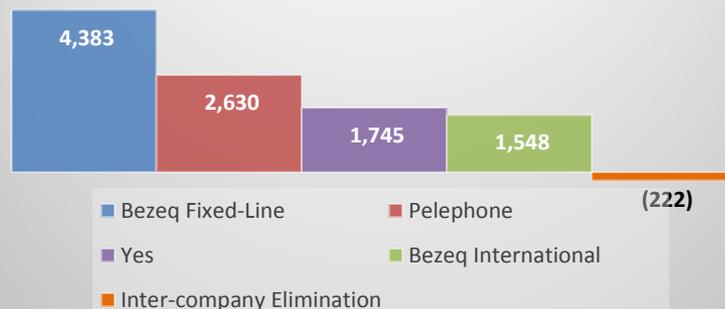
The largest provider of telecommunications services in Israel

- LTM Revenue: NIS 10.1 billion
- Diversified portfolio in all TMT sub-markets
 - 2.12 million fixed customer lines
 - 2.40 million cellular customer lines
 - 1.56 million broadband lines
 - 614,000 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
- The board of directors recommended the distribution of a cash dividend of NIS 578m representing the net profits of 2H 2016

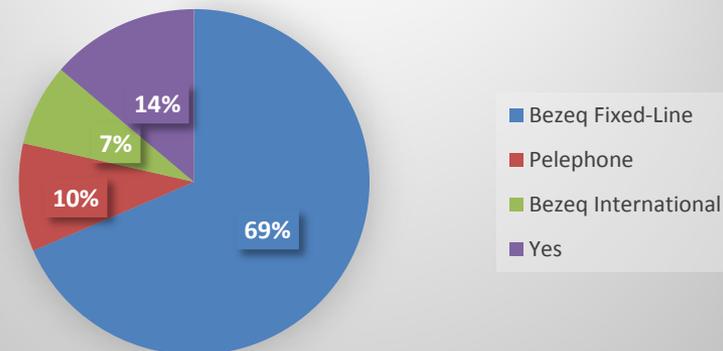


Group Revenues - FY 2016

(Total Revenues of NIS 10.1B)



Contribution to Group EBITDA - FY 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 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

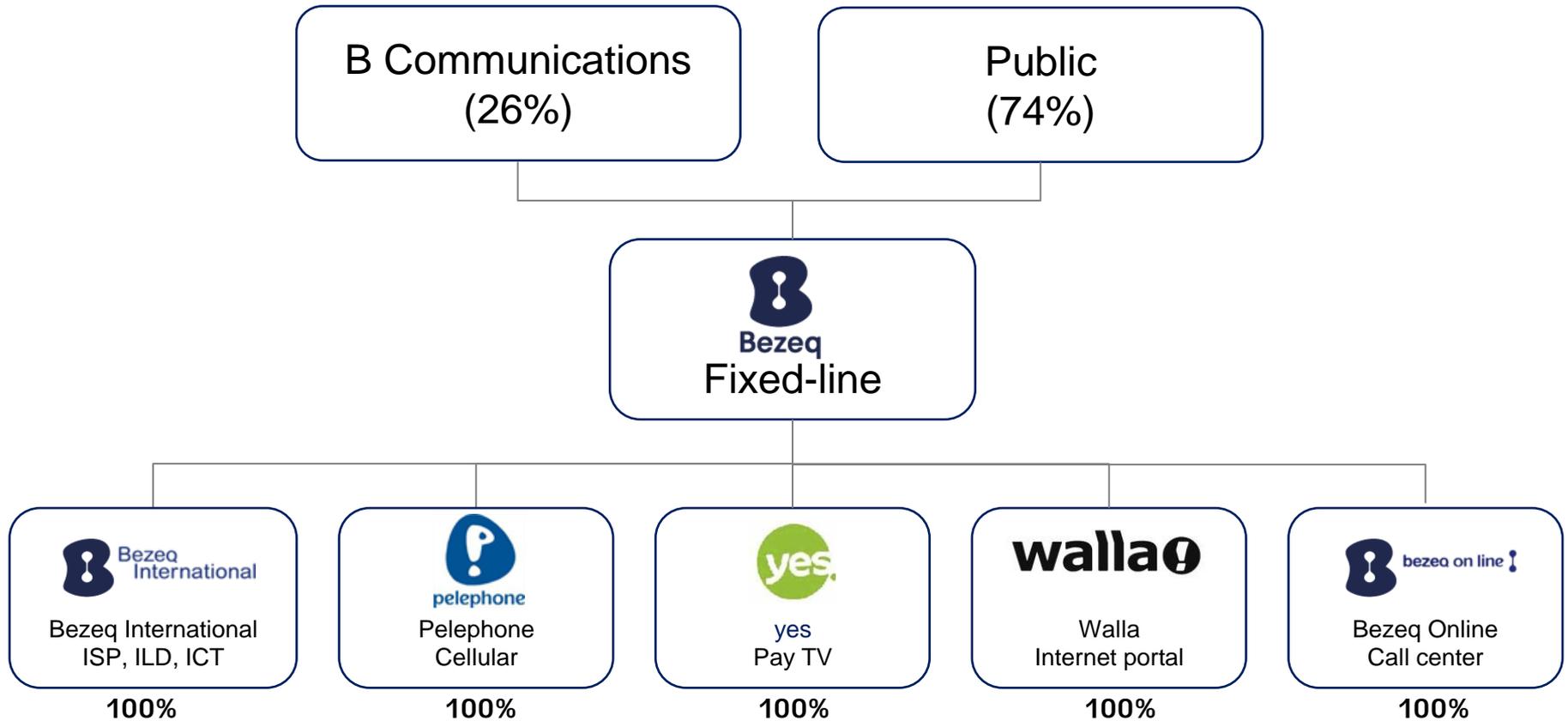
- Well balanced capital structure
- Deregulation policy offers future upside



Capable, stable and experienced management team

Bezeq Group

Wide diversification of advanced telecom services



Competitive Environment



Israeli Telecom Market

Independent Players	Cellcom	Partner	HOT	Bezeq	Bezeq Market Share	
	 				55% / 73%	Fixed line telephony (private/business)
  	Wholesale	Wholesale			69%	Internet Infrastructure (retail)
	 (OTT)		 (Cable)	 (Satellite)	40%	TV
 					44%	ISP
					23%	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

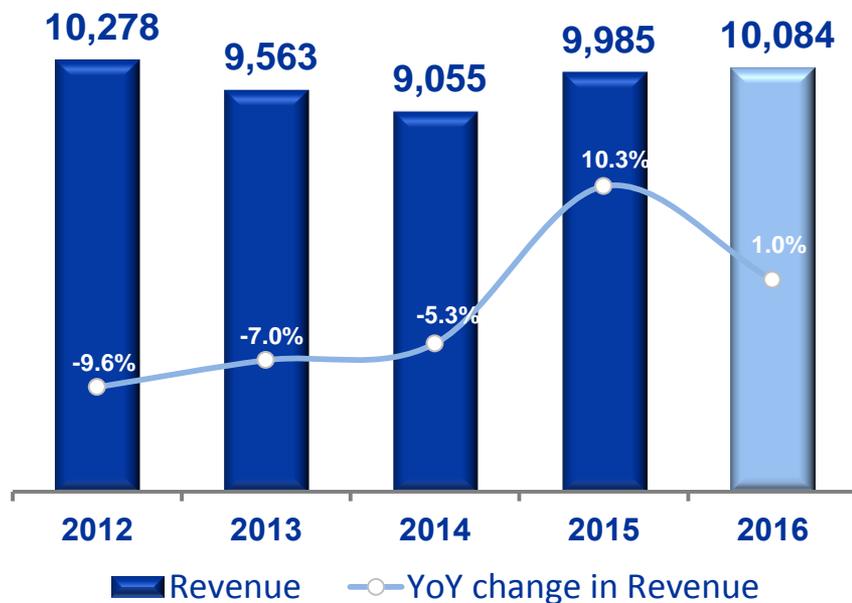
- 
- A photograph of a library interior. In the foreground, a stack of several old, thick books sits on a dark wooden table. Next to it, an open book with yellowed pages lies flat. In the background, a wooden chair with a curved back is positioned in front of a large bookshelf filled with books. The bookshelf has decorative floral patterns on its vertical supports. The lighting is warm and focused on the books.
- **Removal of corporate/structural separation**
 - **Introduction of resale telephony market**
 - **Increased flexibility in retail operations**



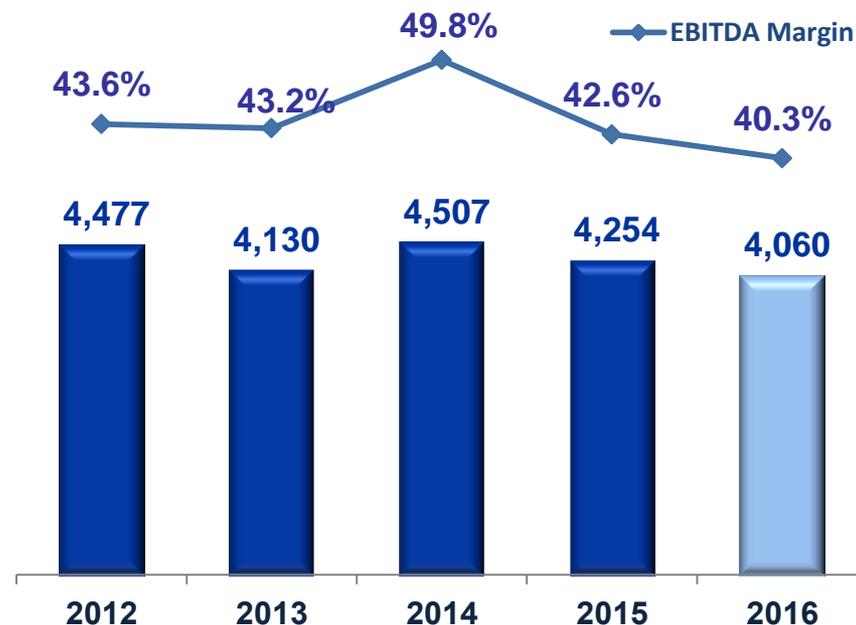
Bezeq Group
Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue NIS MM

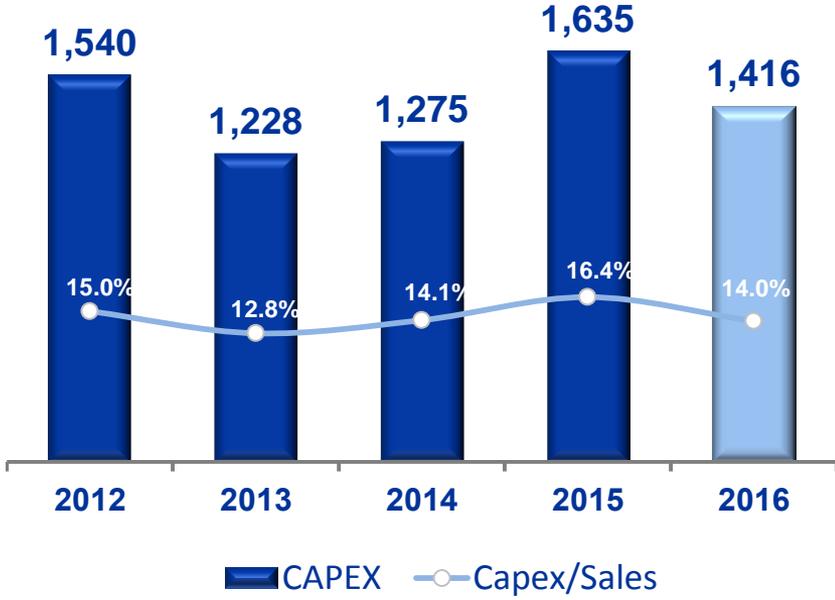


Consolidated EBITDA NIS MM

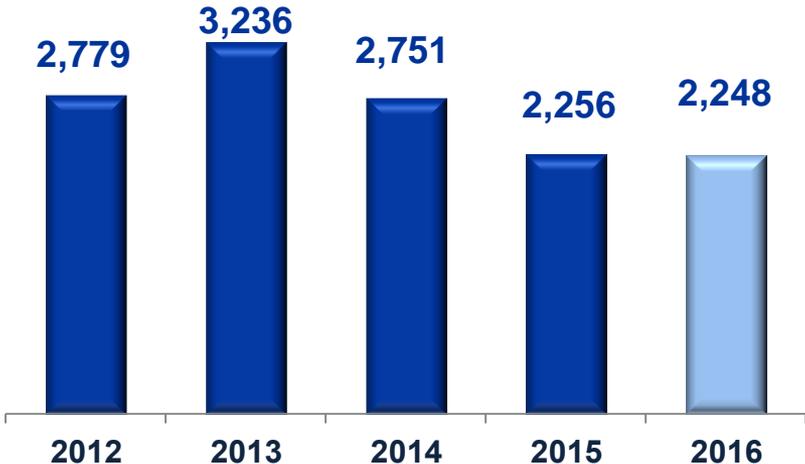


Bezeq Group – CapEx & Free Cash Flow

**Consolidated CapEx
NIS MM**



**Consolidated Free Cash Flow (1)
NIS MM**



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



Bezeq Group – 2017 Guidance

Net profit attributable to shareholders: **Approximately NIS 1.4 billion**

EBITDA: **Approximately NIS 4.0 billion**

Free cash flow: **Approximately NIS 2.0 billion**

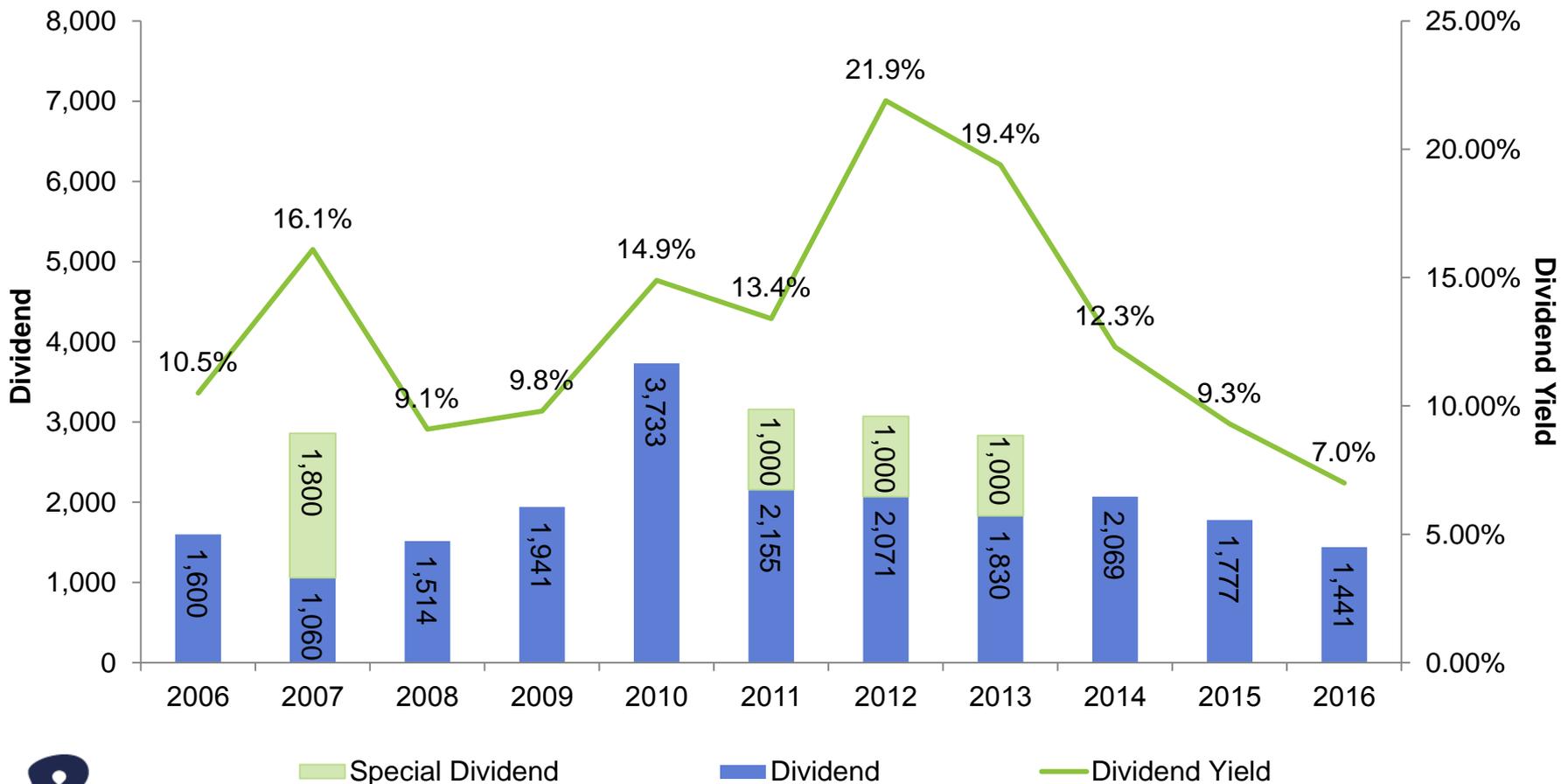
The Company's forecasts detailed above are forward-looking information, as defined in the Securities Law, and are based on assessments, assumptions and expectations of the Company, including the following:

The forecasts do not include the effects, insofar as there are any, of a provision for the early retirement of employees and/or the signing of a collective labor agreement, the realization of Company rights in the real estate property "Sakia" or the cancellation of the Group's corporate/structural separation including the effects of the merger with yes.

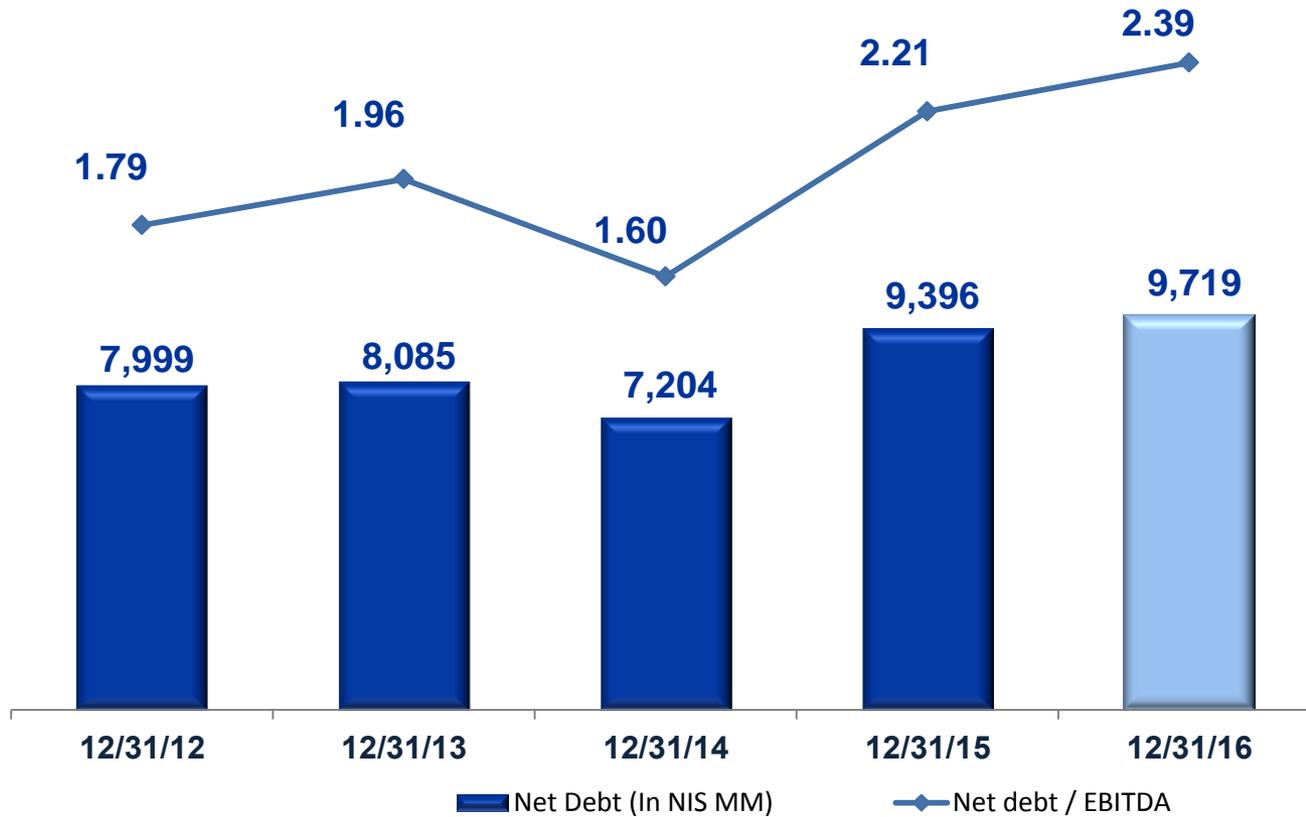
The forecasts are based, among other factors, on the Group's assessments concerning the competition in the communications market and the regulation of the industry, as well as the economic situation in Israel, and consequently, the Group's ability to implement its plans for 2017. In addition, the forecasts include the effect of the early adoption of accounting standard IFRS 15, beginning January 1, 2017, on EBITDA in the amount of NIS 120-160 million and on net profits in the amount of NIS 60-90 million. 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, and realization of risk factors detailed in the Group's periodic report for the year 2016.

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)



Bezeq Group – Net Debt





Bezeq

Fixed Line

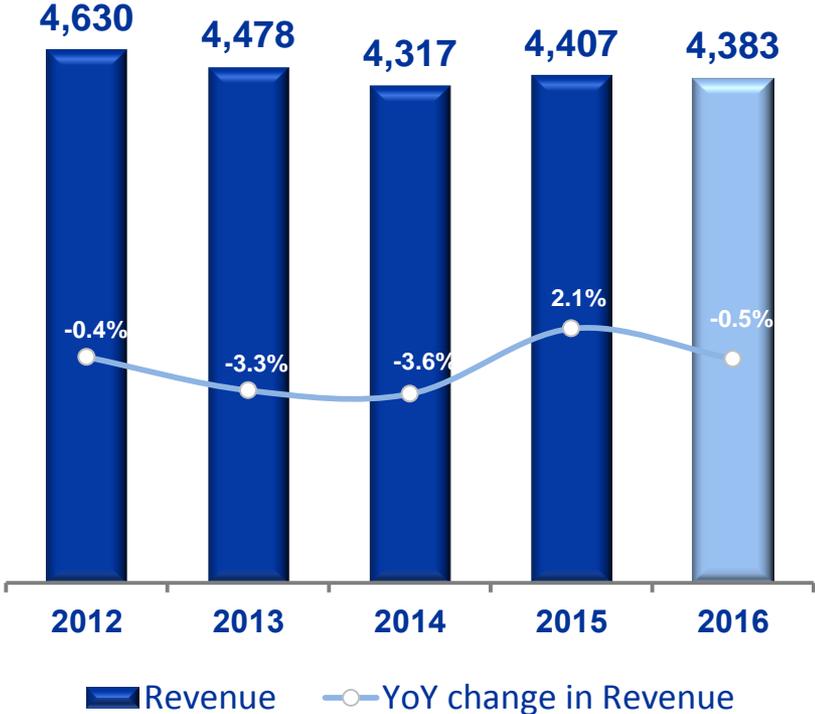
Bezeq Fixed-Line

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

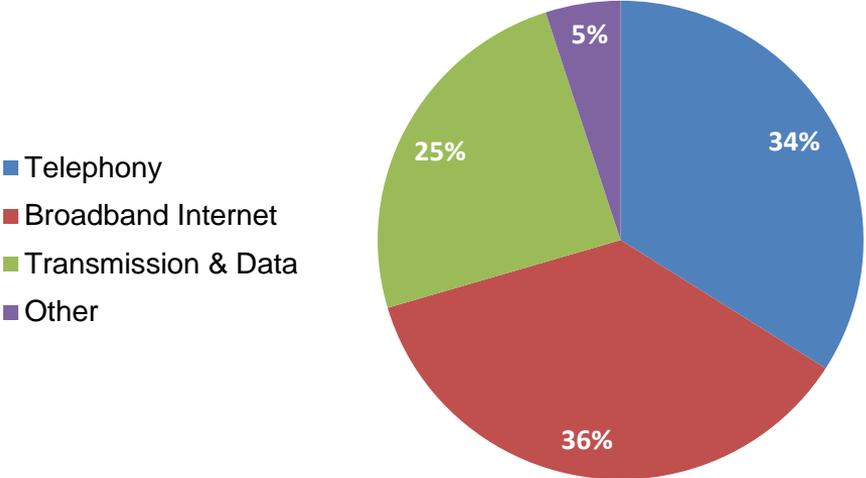
- ✓ Leading broadband provider in Israel with approximately 69% market share, growing by nine percentage points in the last four years
- ✓ 79k broadband customers added in last 12 months, representing an 5.3% increase yoy
- ✓ Broadband retail ARPU growth fueled by continuous bandwidth upgrades
- ✓ Leading provider of corporate telecom solutions in Israel
- ✓ Significant and stable business market share supported by differentiated offering

Bezeq Fixed-Line – Revenue

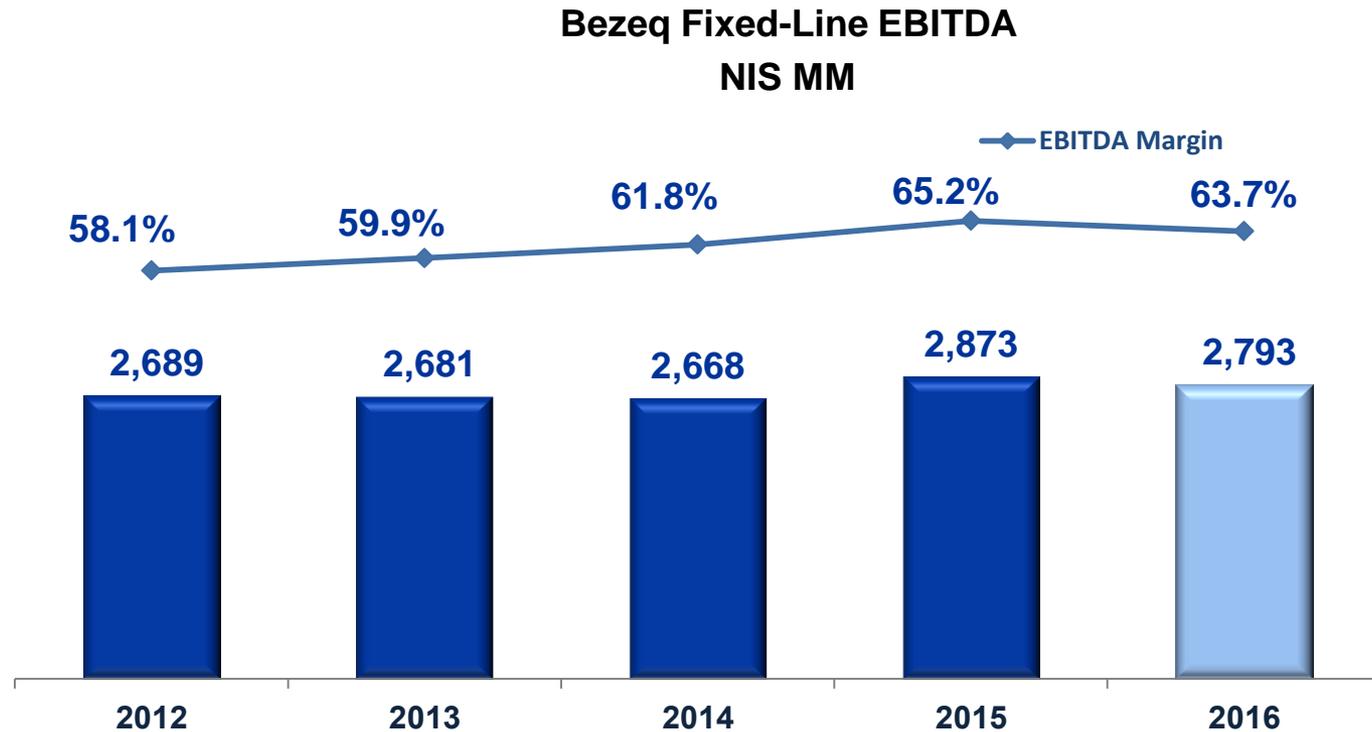
Bezeq Fixed-Line Revenue
NIS MM



Bezeq Fixed-Line Revenue Mix

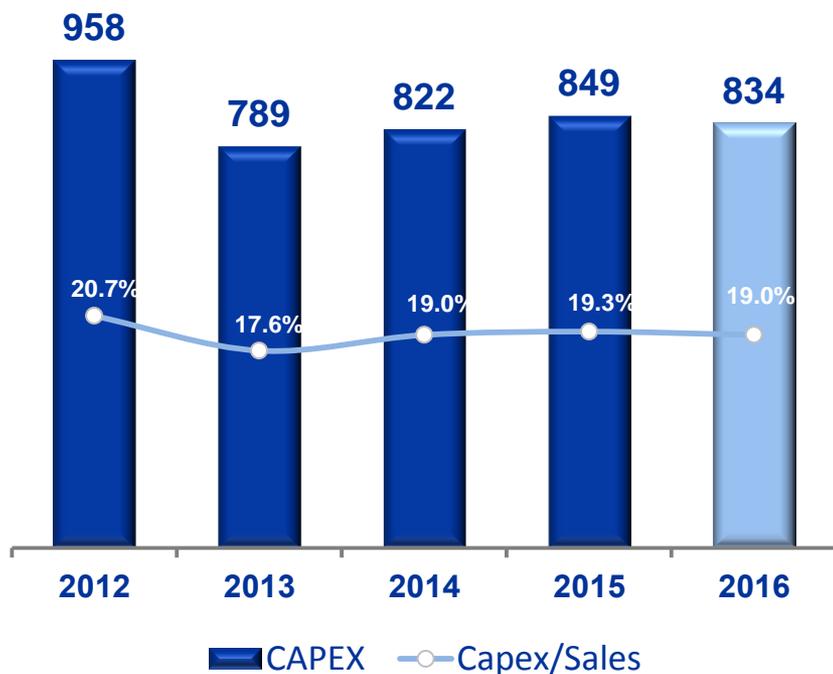


Bezeq Fixed-Line – EBITDA

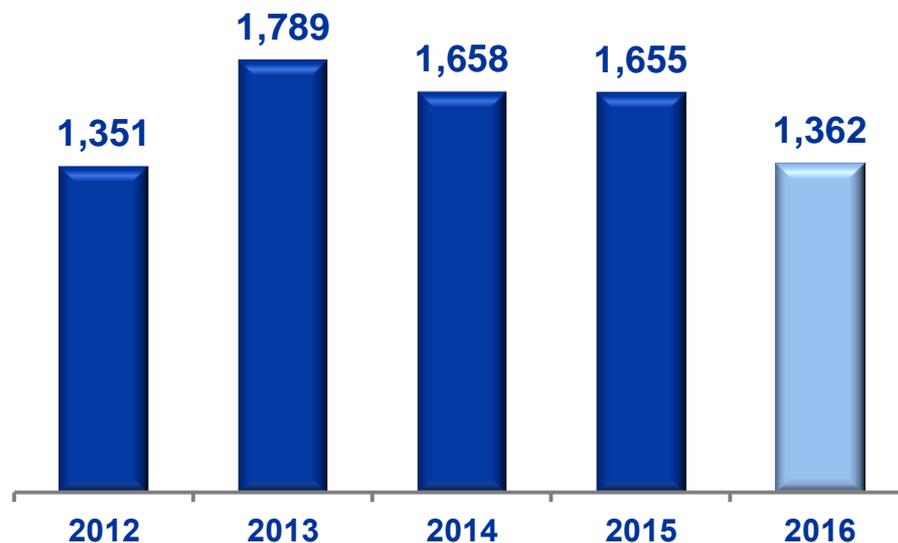


Bezeq Fixed-Line – CapEx & Free Cash Flow

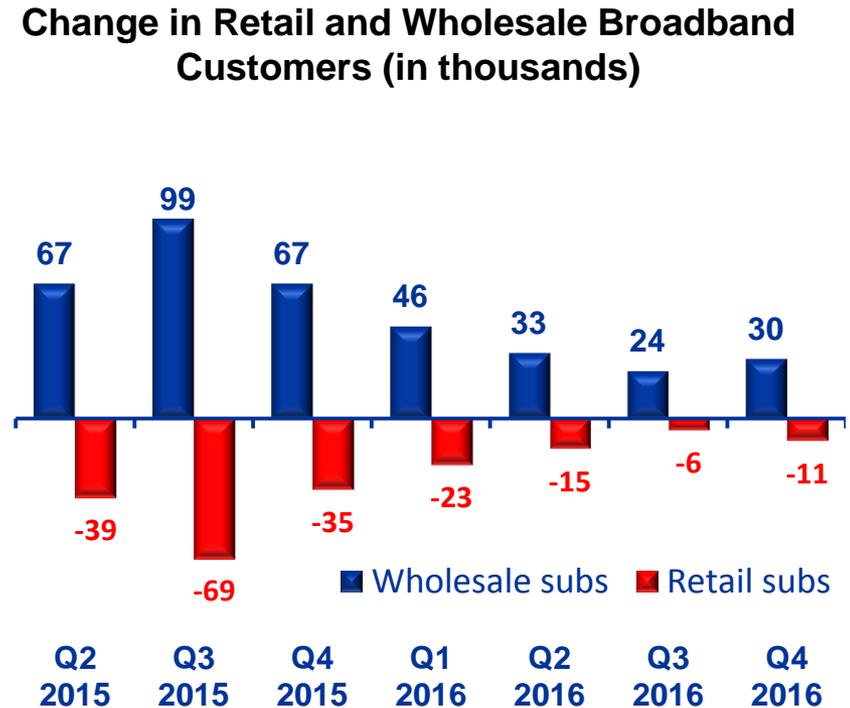
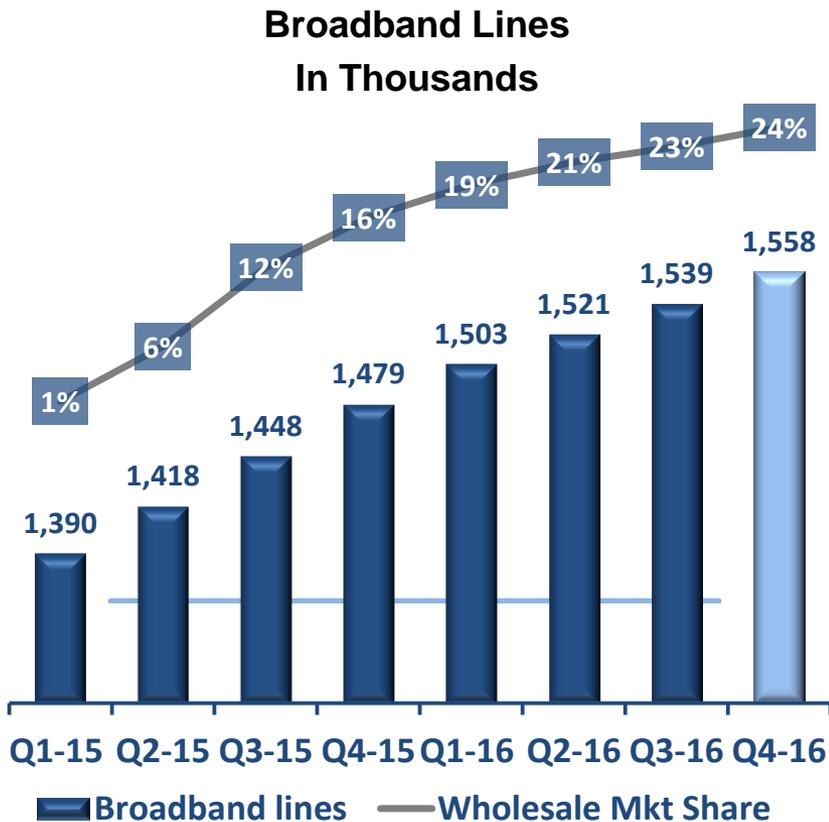
Bezeq Fixed-Line CapEx NIS MM



Bezeq Fixed-Line Free Cash Flow NIS MM

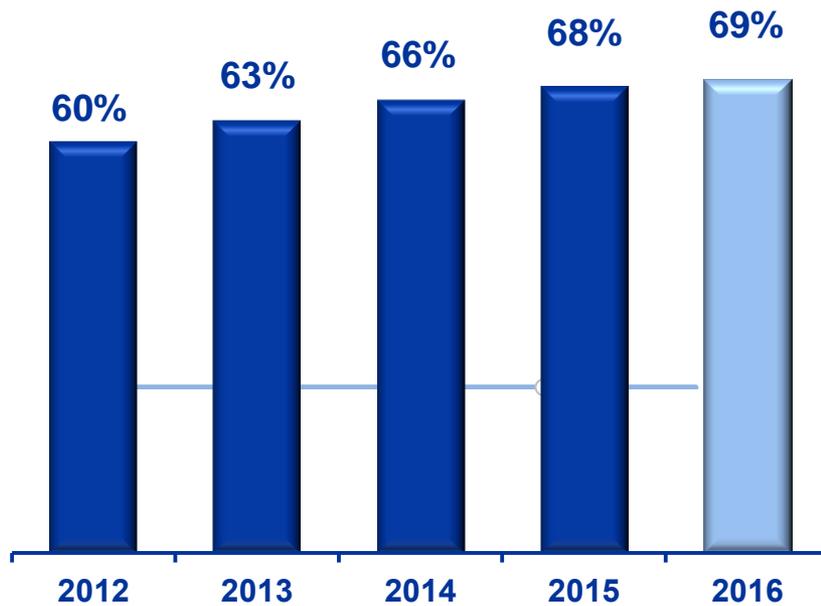


Bezeq Fixed-Line – Broadband Internet Trends

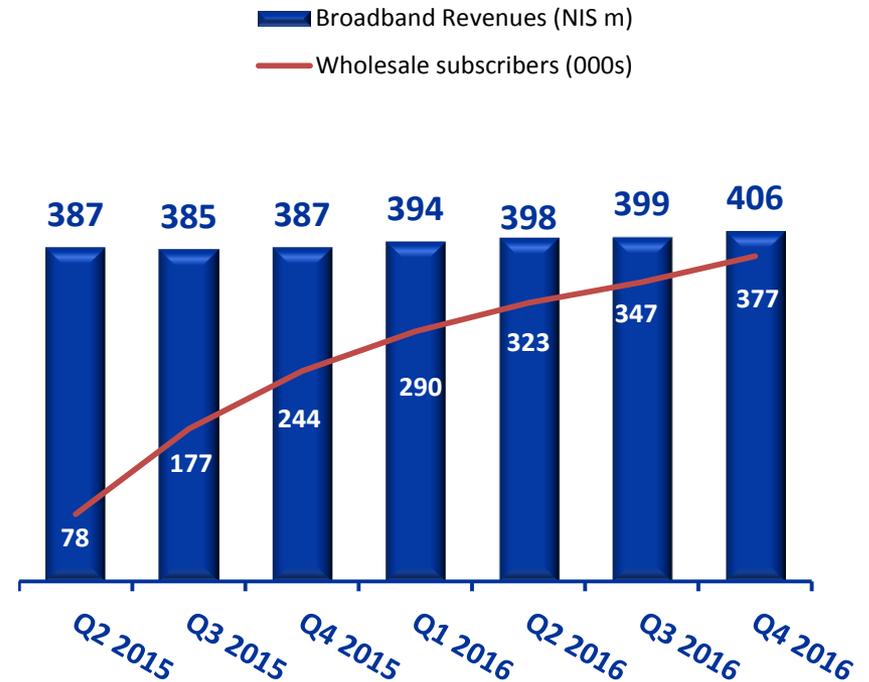


Broadband Internet Trends (cont'd)

Broadband Market Share

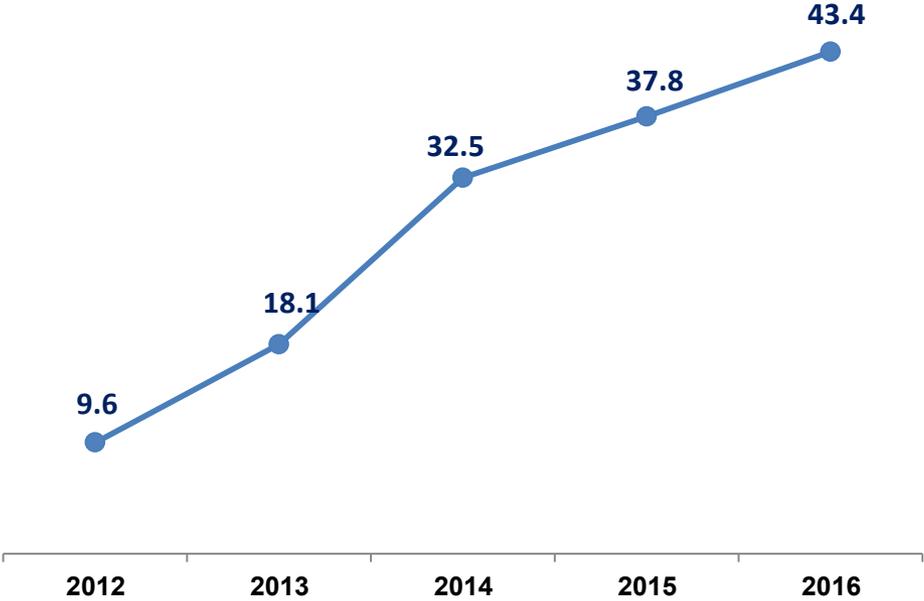


Broadband Revenue and wholesale subscriber

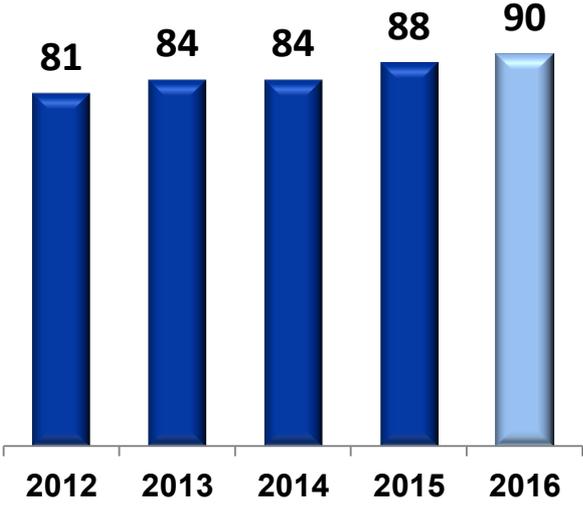


Ongoing increases in bandwidth and ARPU

14% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)



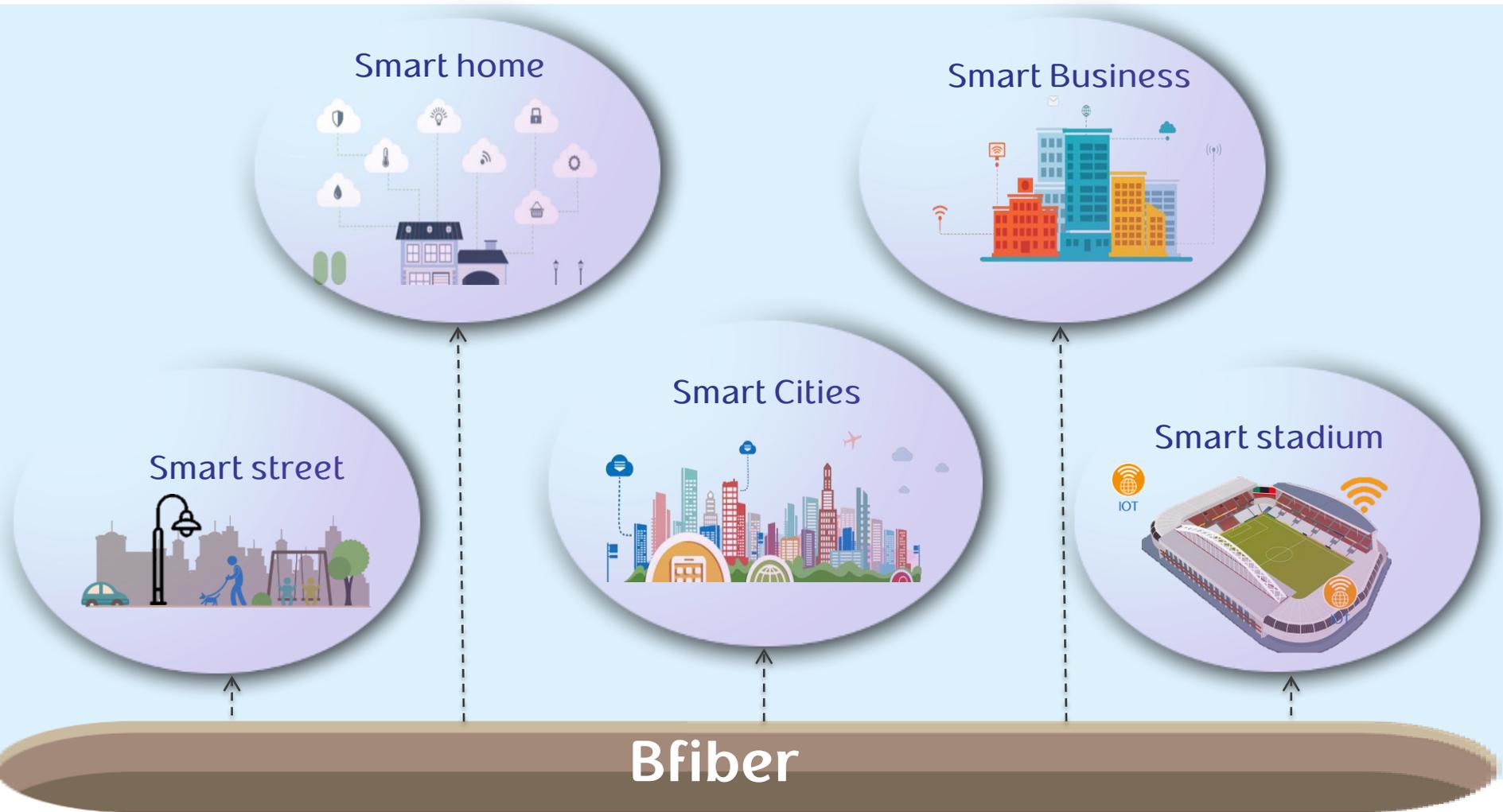
Megabits Per Second (Mbps)



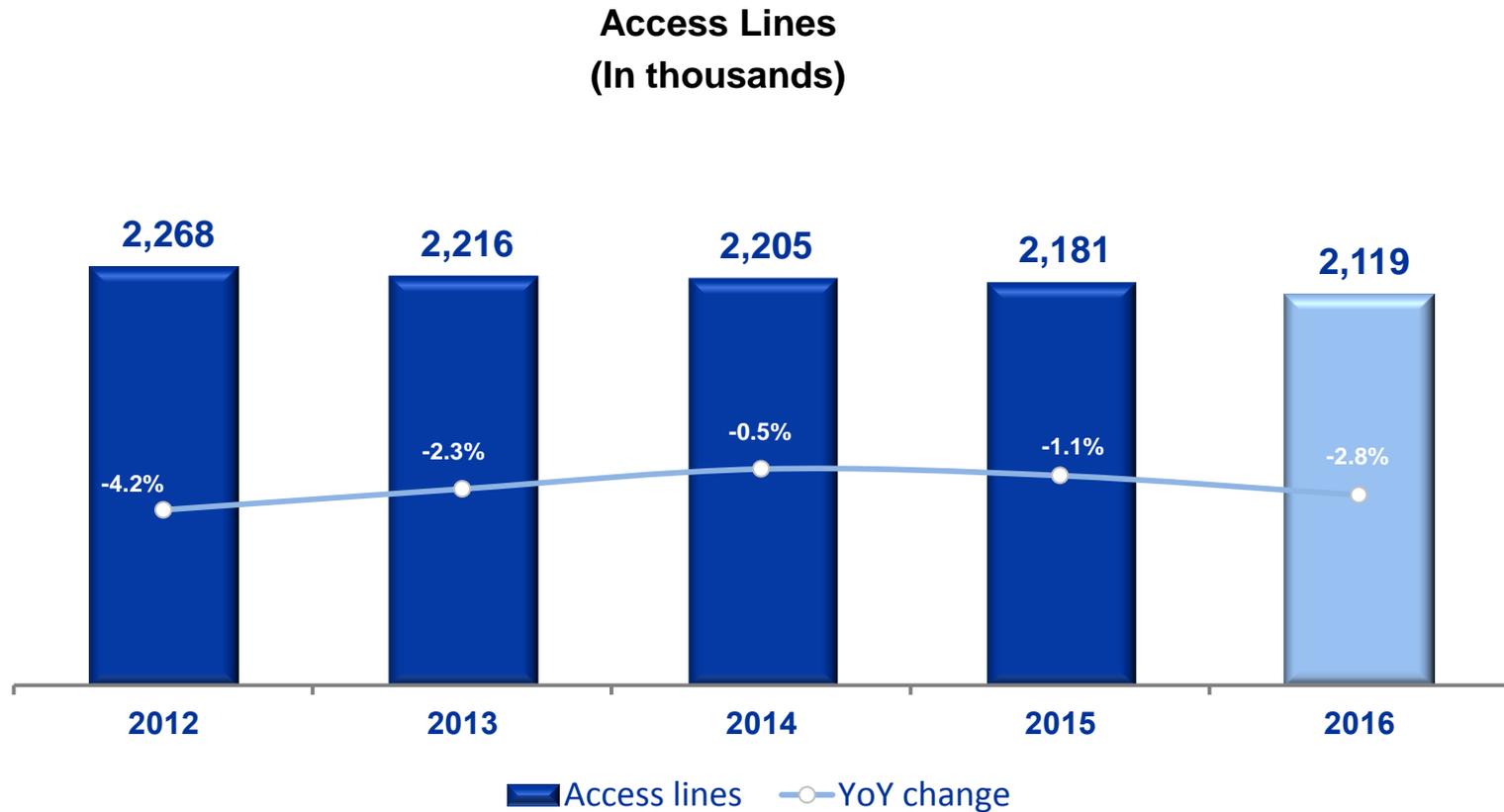
During 2017 we are continuing to conduct field trials in G.Fast and PTP technologies for the provision of ultra-fast broadband and advanced telecom services



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



Bezeq Fixed-Line – Telephony Trend





Telephone

Cellular

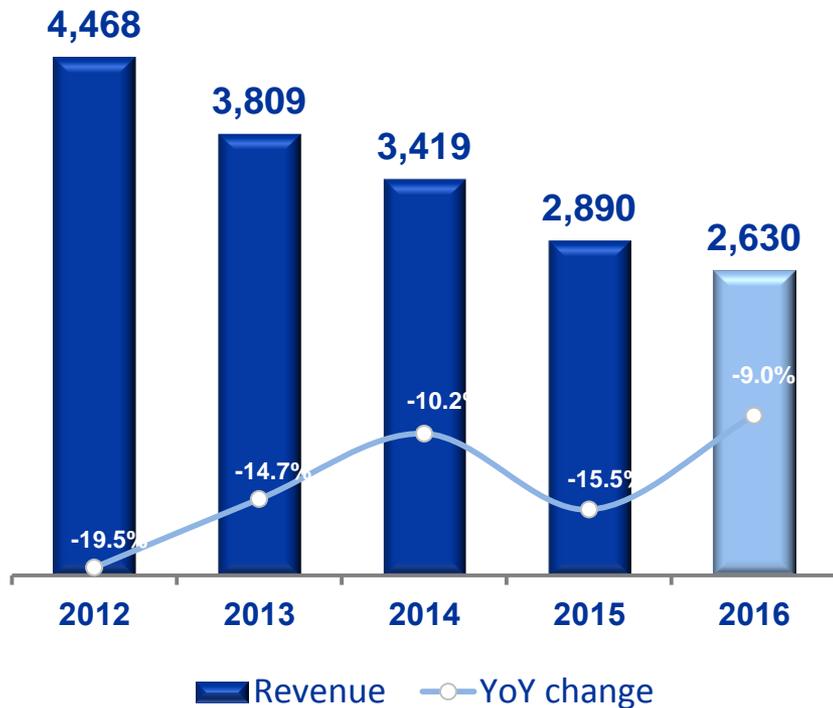


- 2.40 million cellular customers
- Nationwide HSPA network; wide deployment of 4G (LTE) network
- Pelephone private label smartphones (Gini)
- Strong platform for advanced data services (Cyber service, Big data solutions, IOT starter kit, etc.)
- Host of value added services (cloud, music, TV, ringtones,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

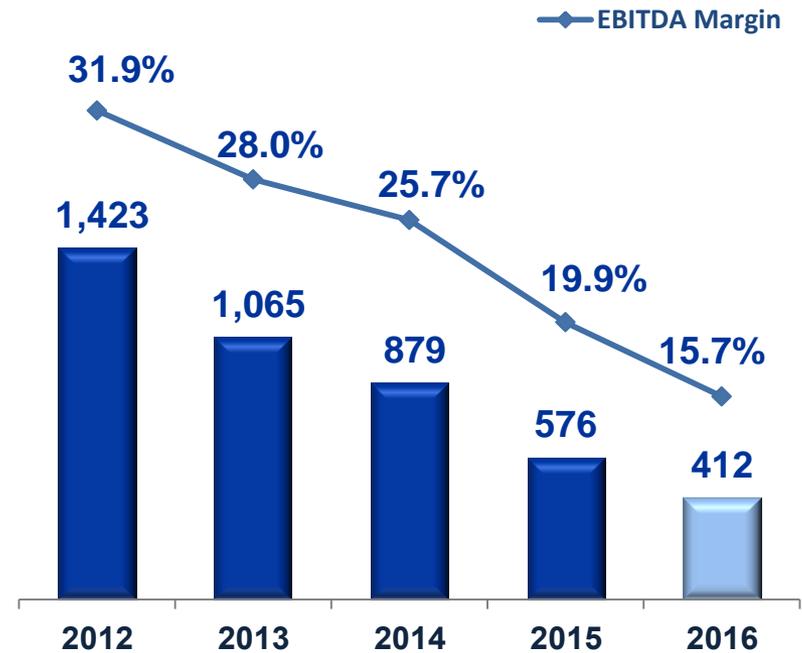


Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM

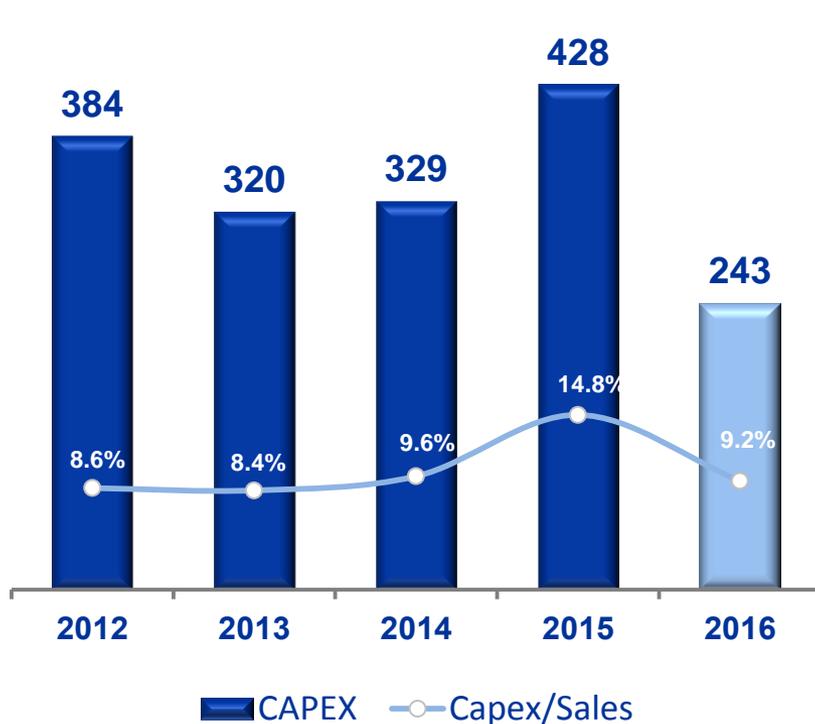


Pelephone EBITDA
NIS MM

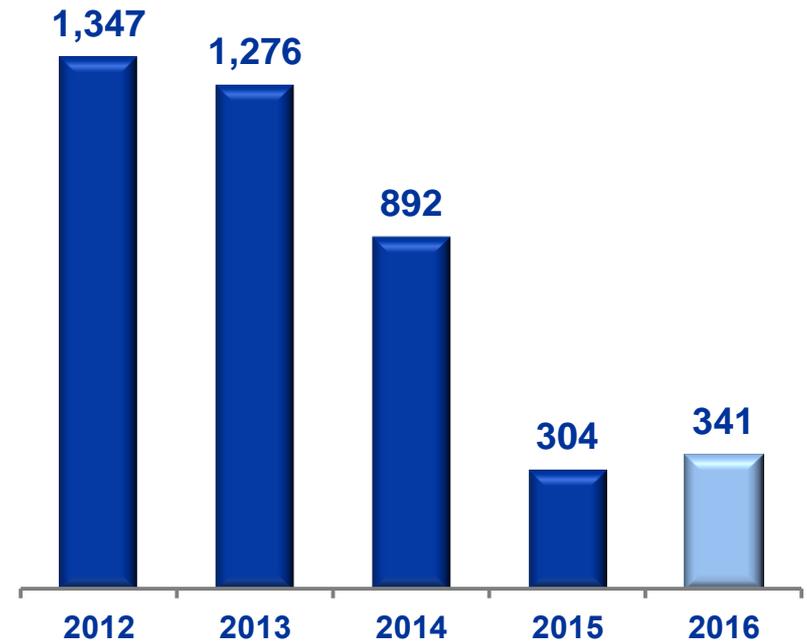


Telephone CapEx & Free Cash Flow

Telephone Capex
NIS MM



Telephone Free Cash Flow
NIS MM

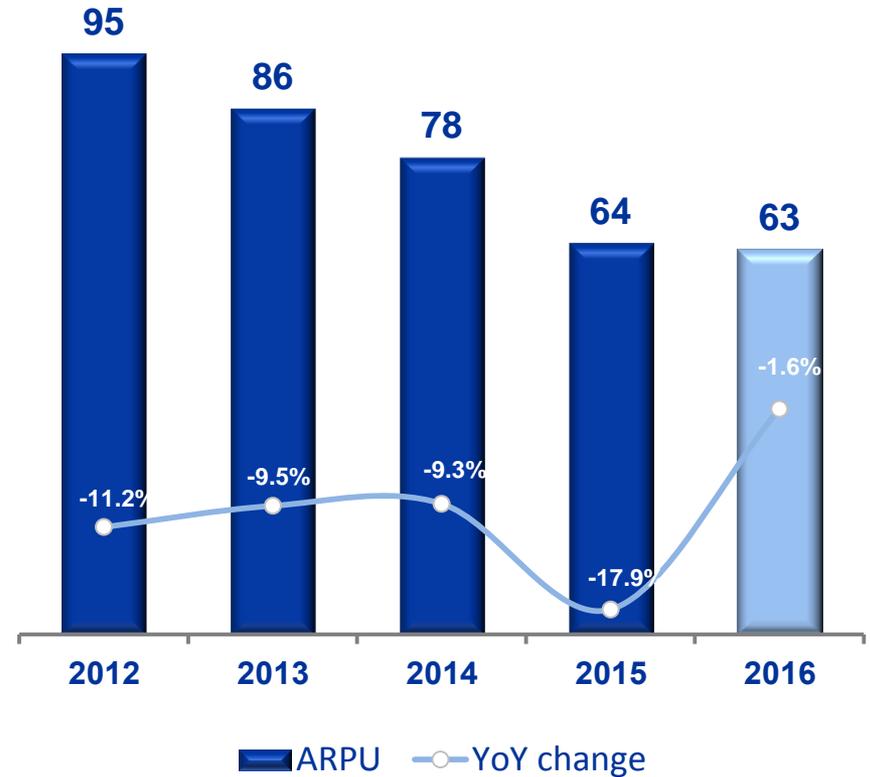


Telephone KPIs

Telephone Subscribers (in 000's)



Telephone ARPU (NIS)





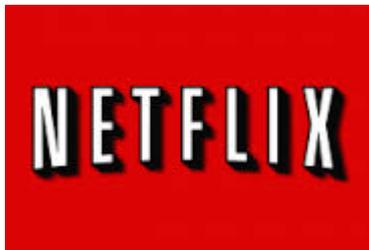
Multi-Channel
DTH Provider

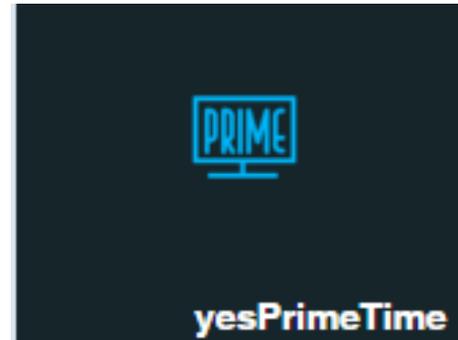


Leading brand for content, innovative applications and customer service

- *Fully digital with nationwide deployment*
- *40% market share*
- *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*

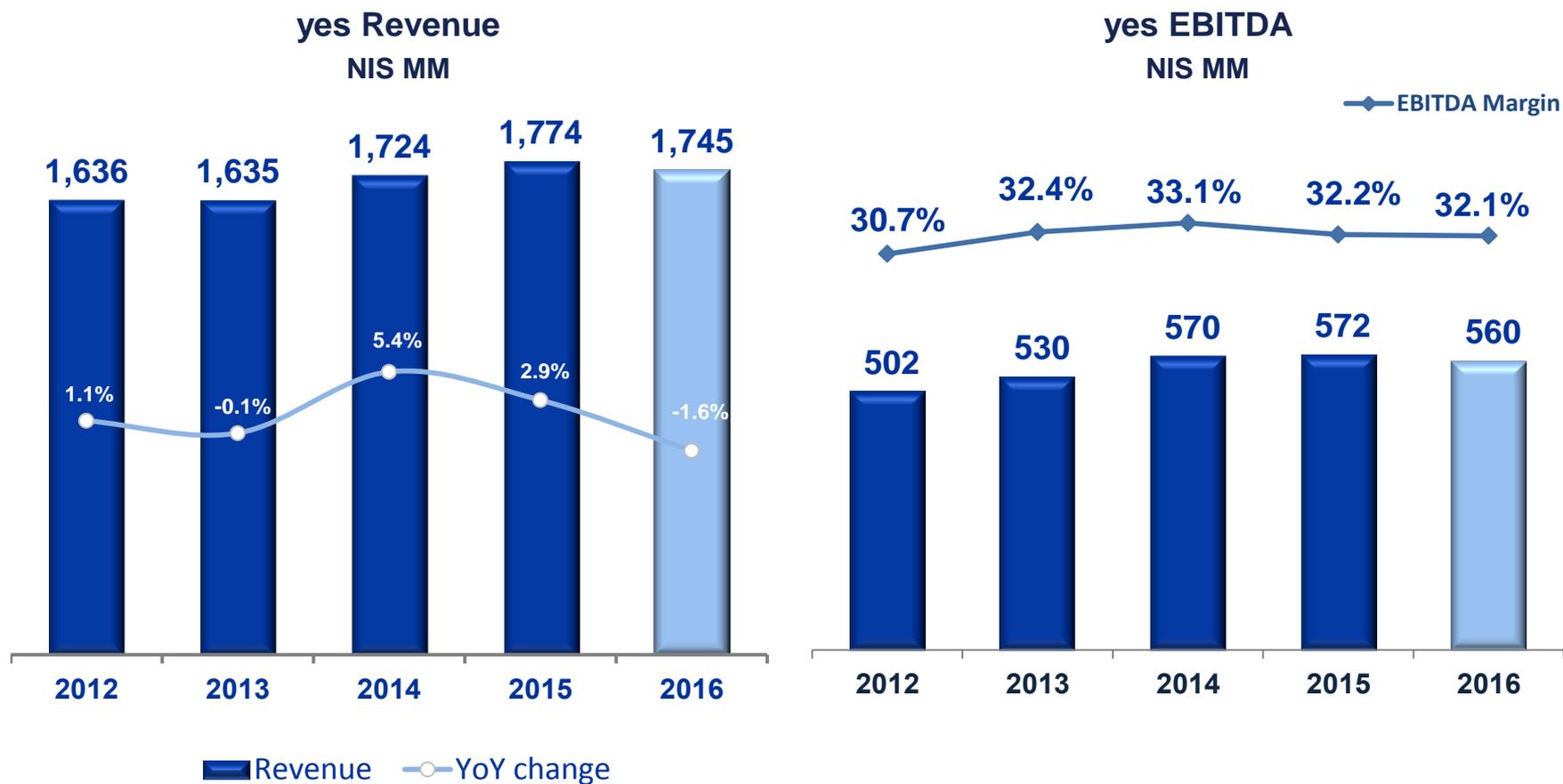
In recent years the multichannel TV market in Israel has been going through major structural transformation





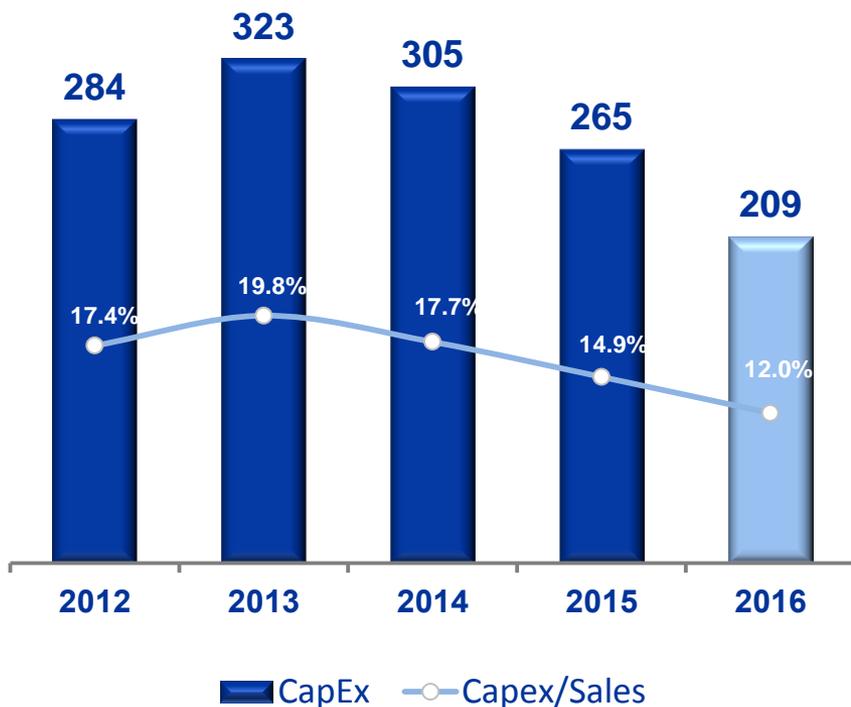
- ✓ Content leader with unprecedented 600 series and new seasons from around the world
- ✓ Innovative applications based on state-of-the-art technology including launch of 4k broadcasting
- ✓ Average of three set-top boxes per household with significant proportion of HD

yes – Revenue & EBITDA

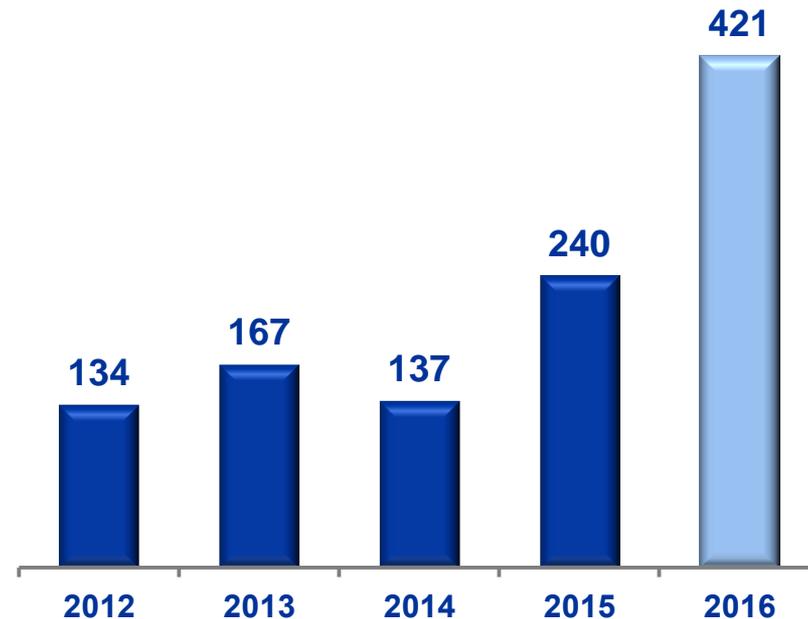


yes – CapEx & Free Cash Flow

yes CapEx
NIS MM

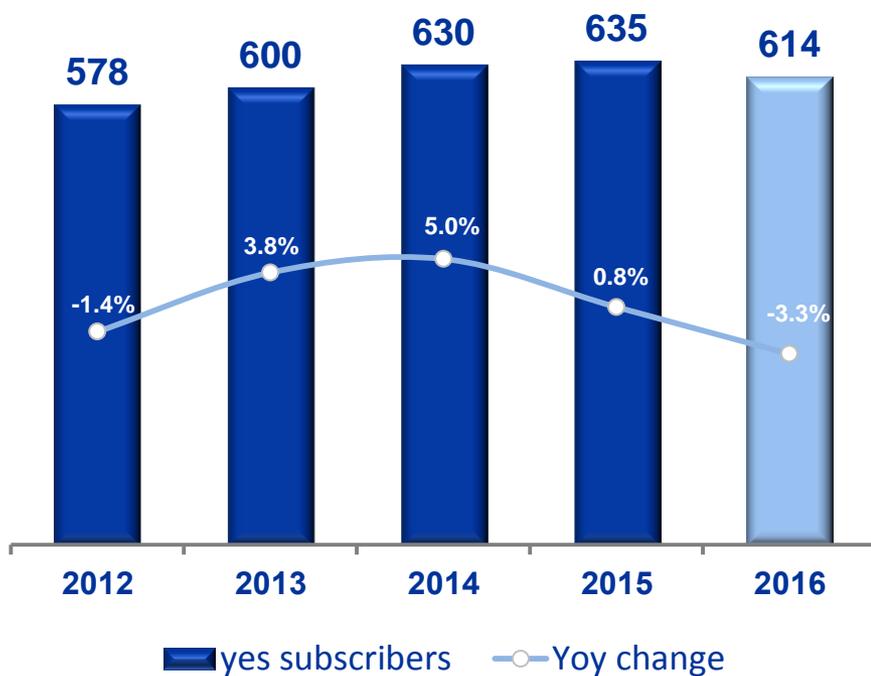


yes Free Cash Flow
NIS MM

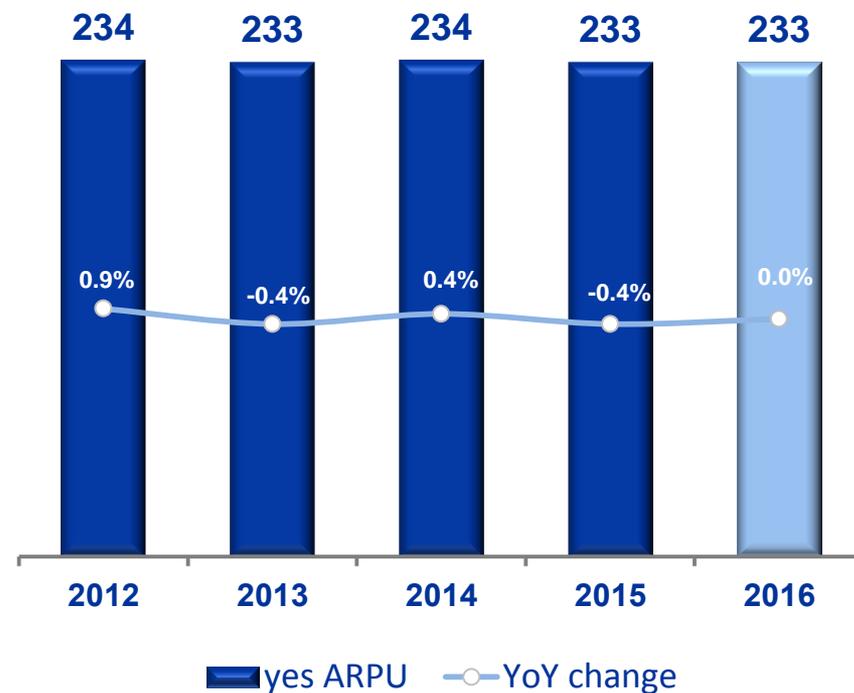


yes – KPIs

yes Subscribers (in 000's)



yes ARPU (NIS)





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

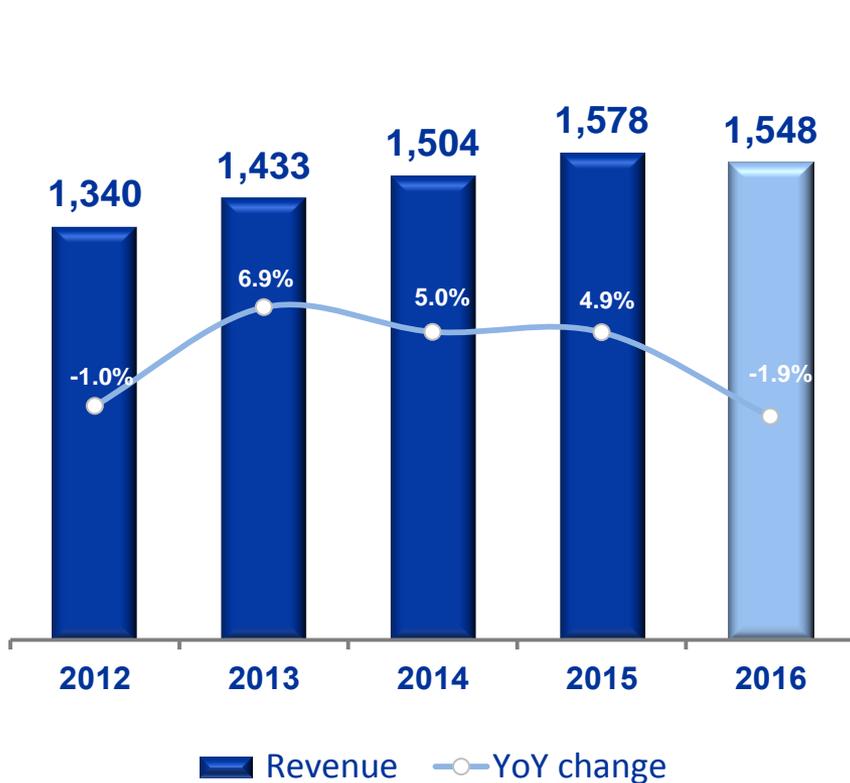
Bezeq International's submarine cable provides a platform to:

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

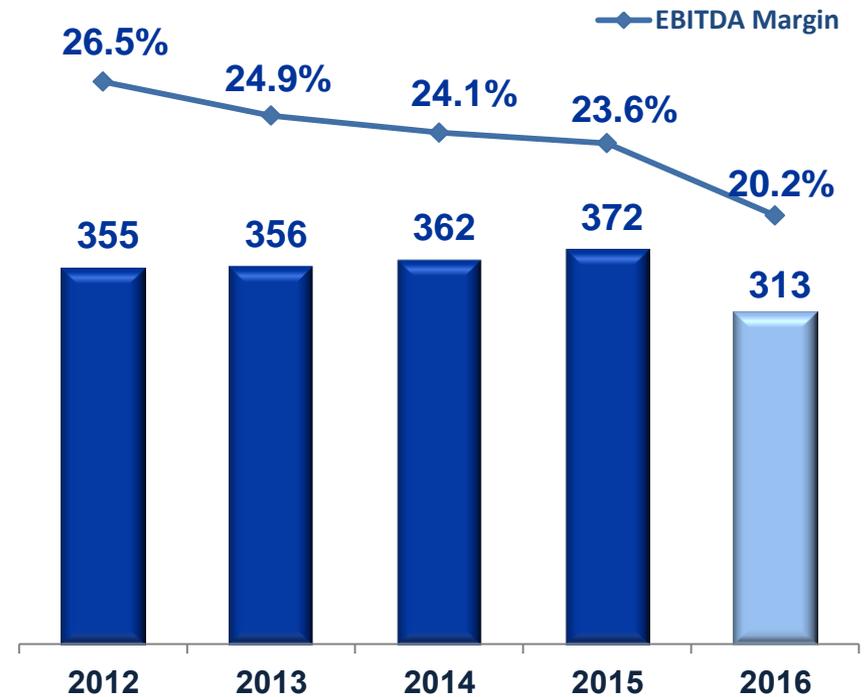


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM

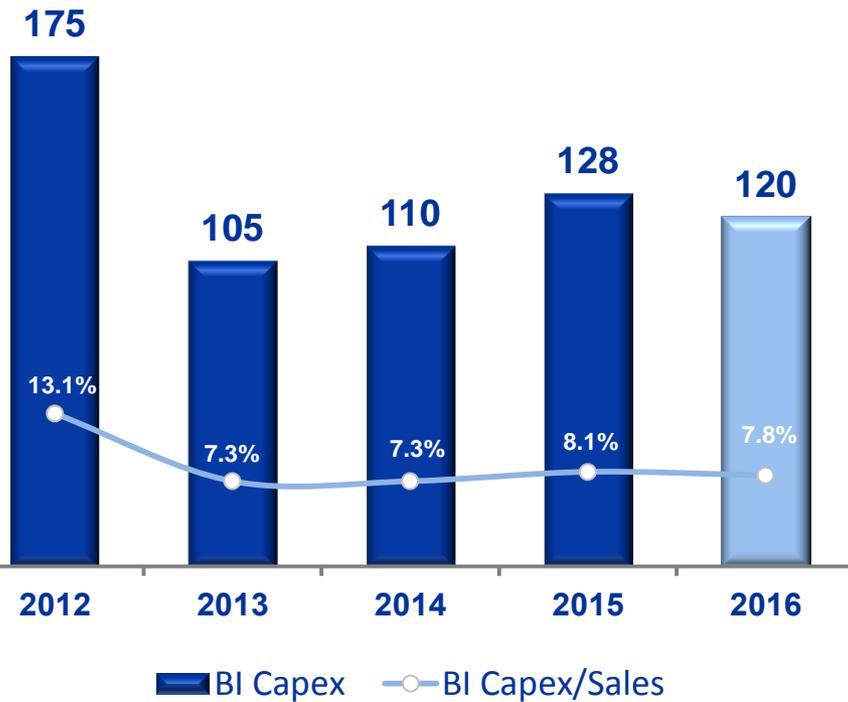


Bezeq International EBITDA
NIS MM

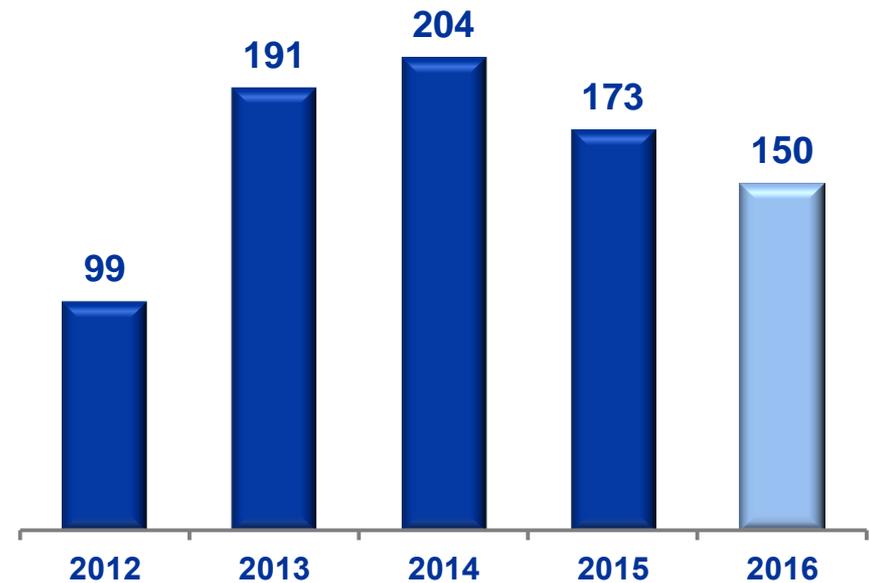


Bezeq International – CapEx & Free Cash Flow

Bezeq International CapEx
NIS MM



Bezeq International Free Cash Flow
NIS MM



Market Changes Create New Opportunities for the Bezeq Group

Removal of
Corporate/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 brand differentiation in each market - leading content in television, ultra-fast quality Internet with value-added services, 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
<http://ir.bezeq.co.il>**