



BEZEQ ***(TASE: BEZQ)***

Investor Presentation

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.

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



Unemployment rate



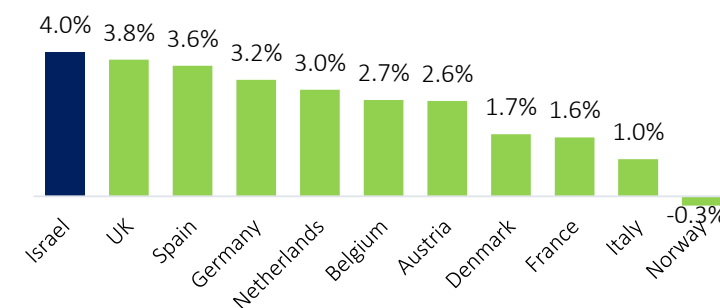
Source: Central Bureau of Statistics data and Bank of Israel calculations

Inflation rate



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

Nominal GDP Growth, 2016



Source : Credit Suisse; Israel – Bank of Israel

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.

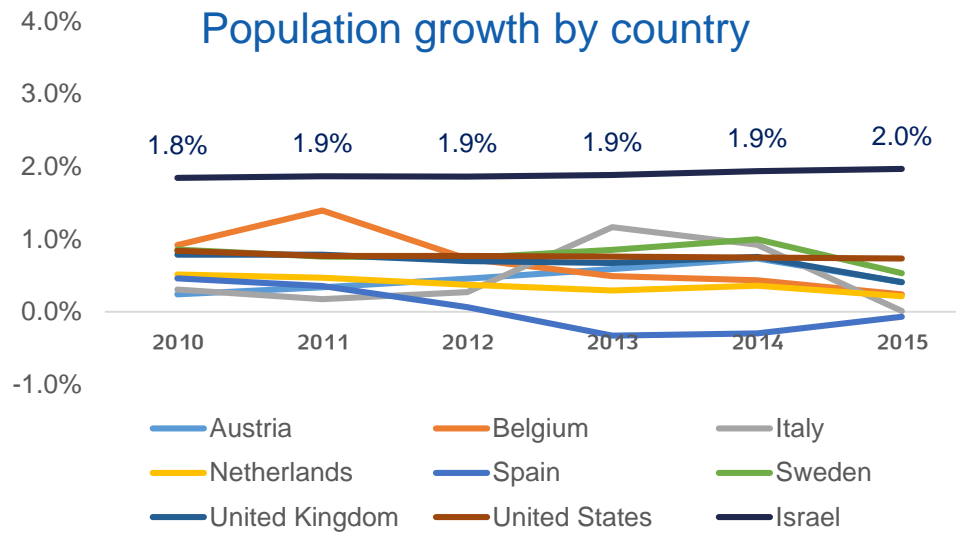
Rating Action: Moody's affirms Israel's A1 government rating; outlook remains stable

Global Credit Research - 11 Aug 2016



Israel Demographics

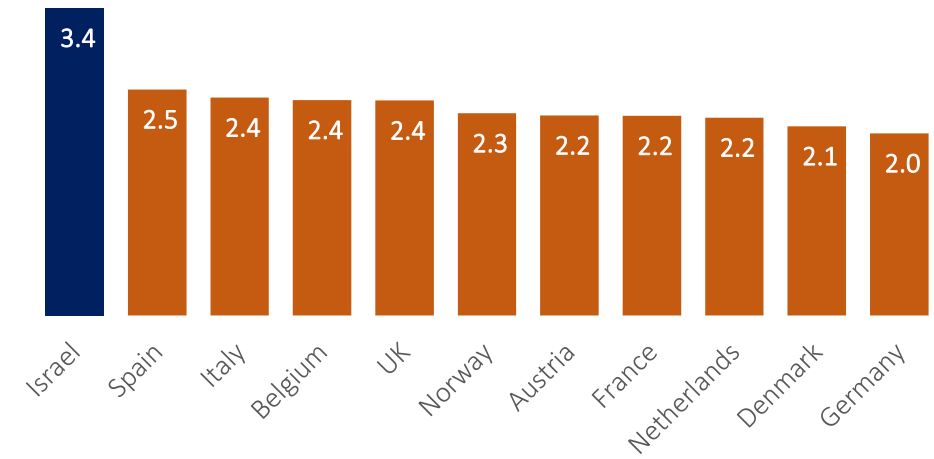
High population growth and large household size fueled by key sectors support market volumes and underlying growth



Source: OECD; Israel - Central Bureau of Statistics



Average size of households 2016



Source: Credit Suisse; Israel - Central Bureau of Statistics



Bezeq group in numbers 2016

Revenues of
10.1 billion NIS

Strong financials

in terms of profitability, cash generation
and capital structure

100%
of net income dividend
distribution policy

614,000
Pay-TV customers
(Market share: 40%)

1.6 million
broadband lines
(Market share: 69%)

2.4 million
cellular subscribers
(Market share: 22.7%)

2.1 million
fixed access lines

(Market share telephony private sector: 55%,
Business sector: 73%)

46%
Bezeq Group

Total Telecom
Revenue - key
operators*

NIS21.5B

54%
Others

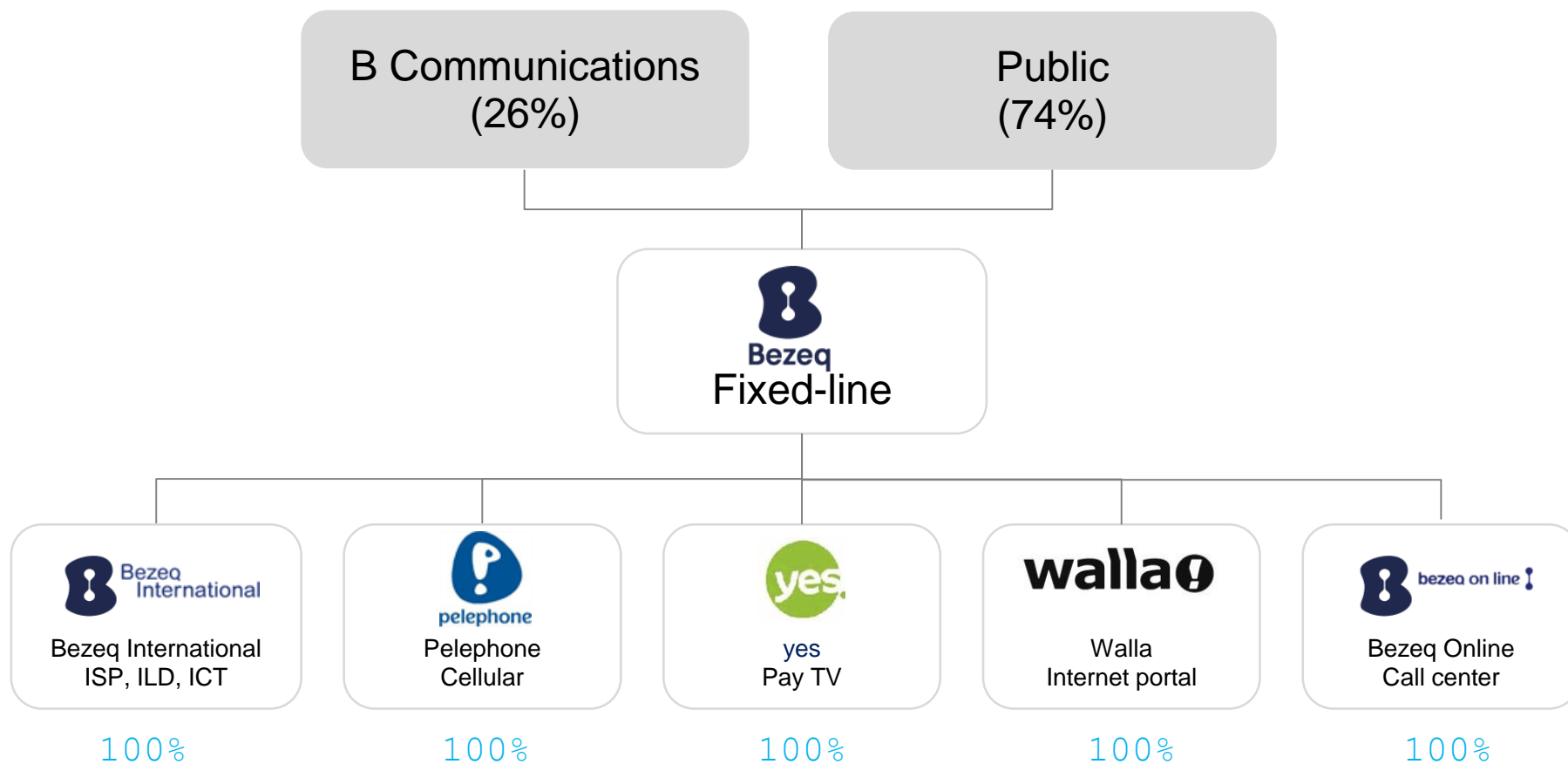


Diversified portfolio in all TMT sub-markets

* Cellular Market share data as of 9/2016

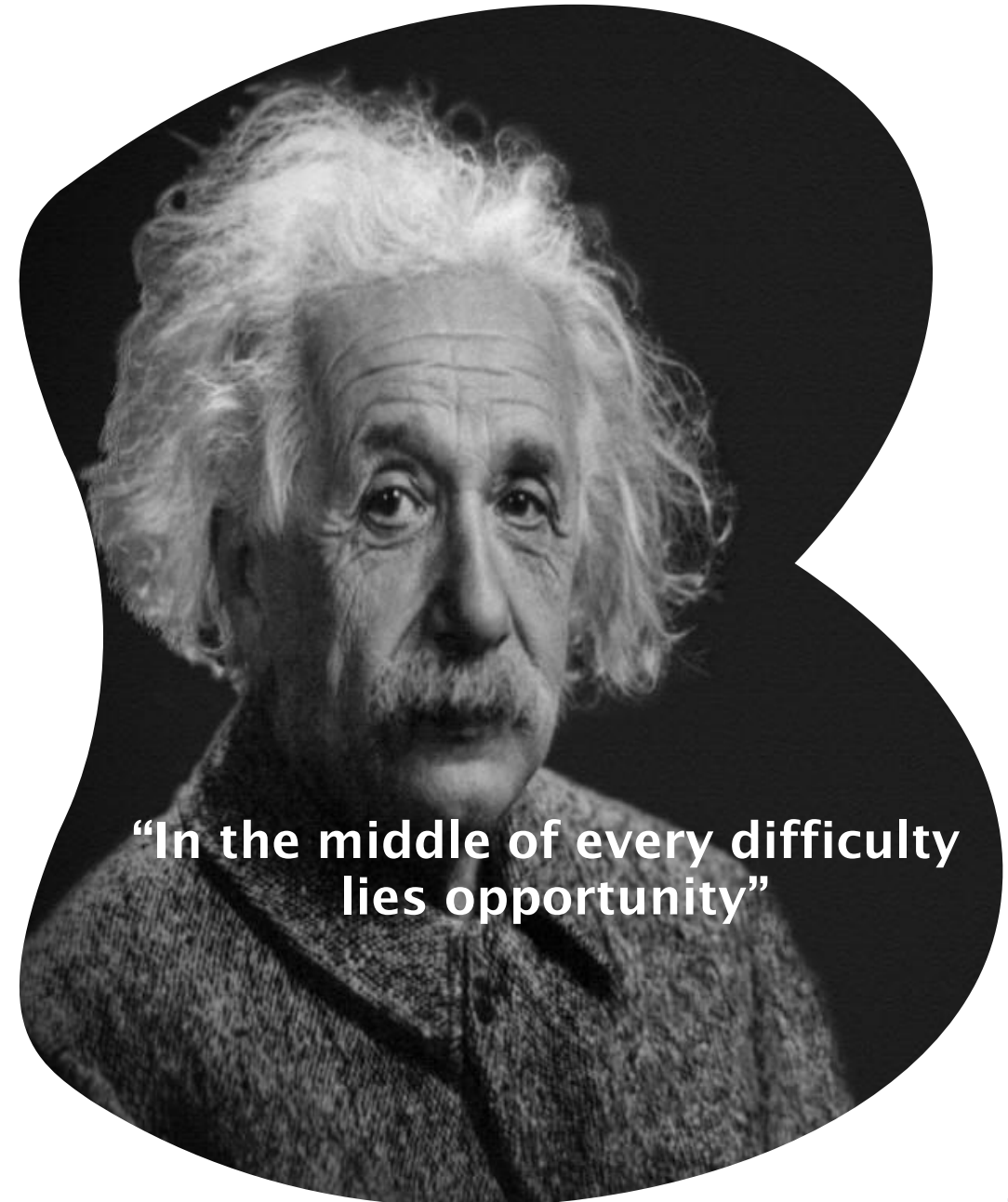
Bezeq Group

Wide diversification of advanced telecom services



Regulatory Opportunities & Challenges

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

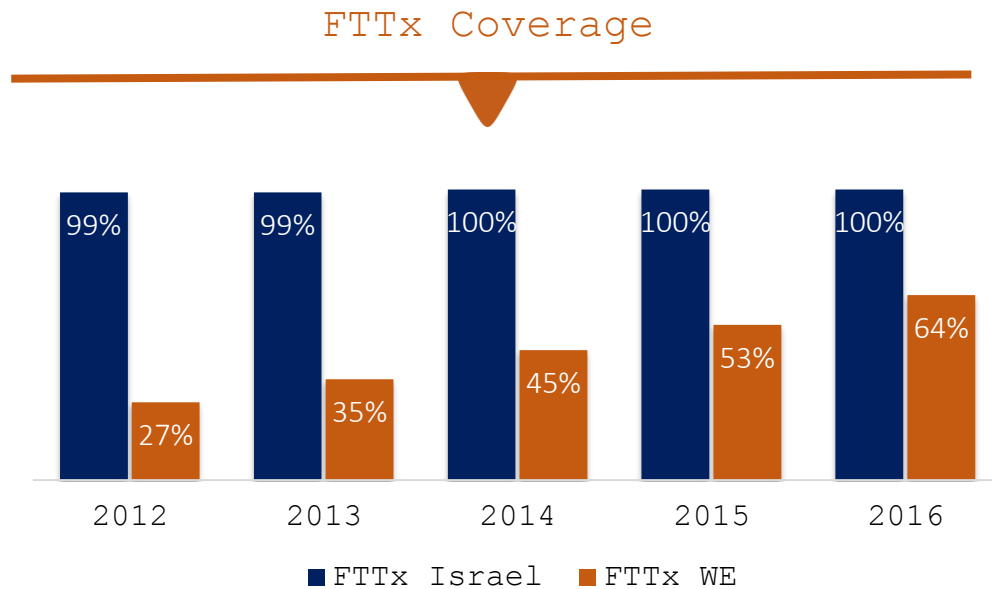




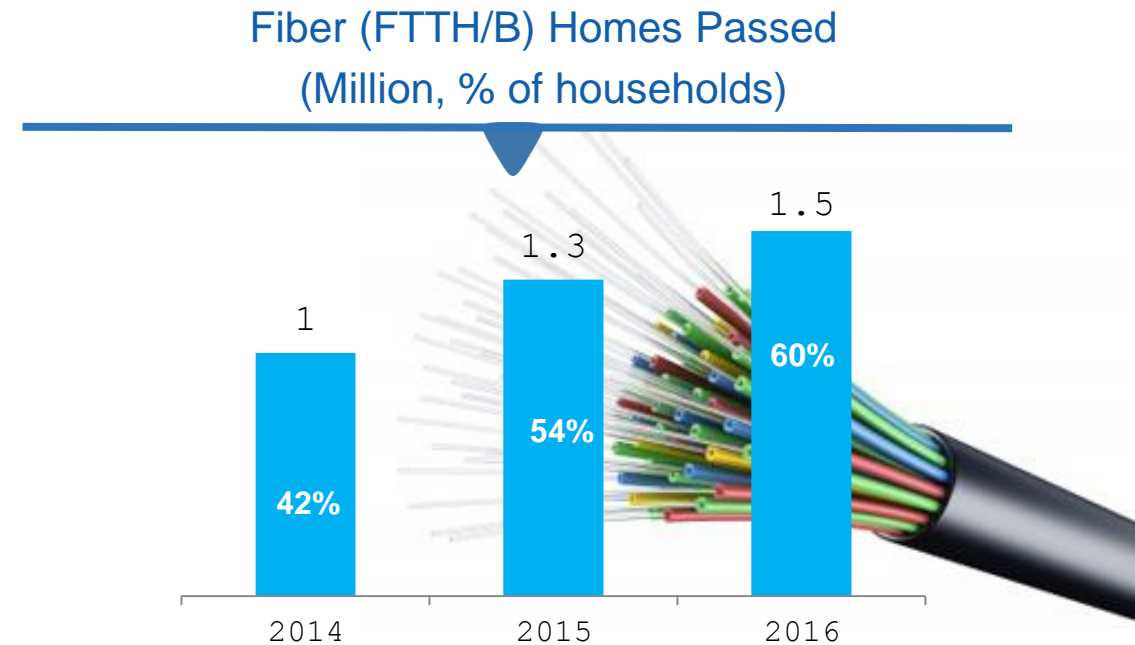
Bezeq Fixed-Line

State-of-the-art fixed-line infrastructure

- Fully owned, newly built and ducted network provides Bezeq with a competitive edge
- NGN FTTC network that supports high bandwidth speeds (up to 100 mbps) deployed on a nation-wide basis
- Launched in 2013, Fiber (FTTH/B) covers approximately 1.5 million or 60% of households and businesses in Israel

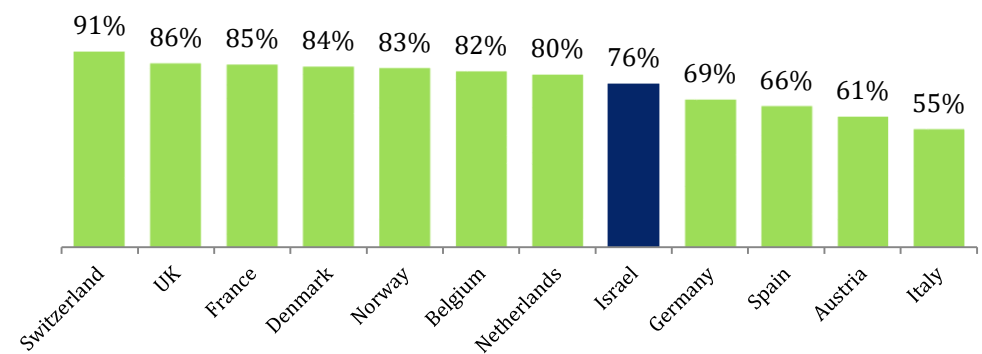


Source: Analysys Mason



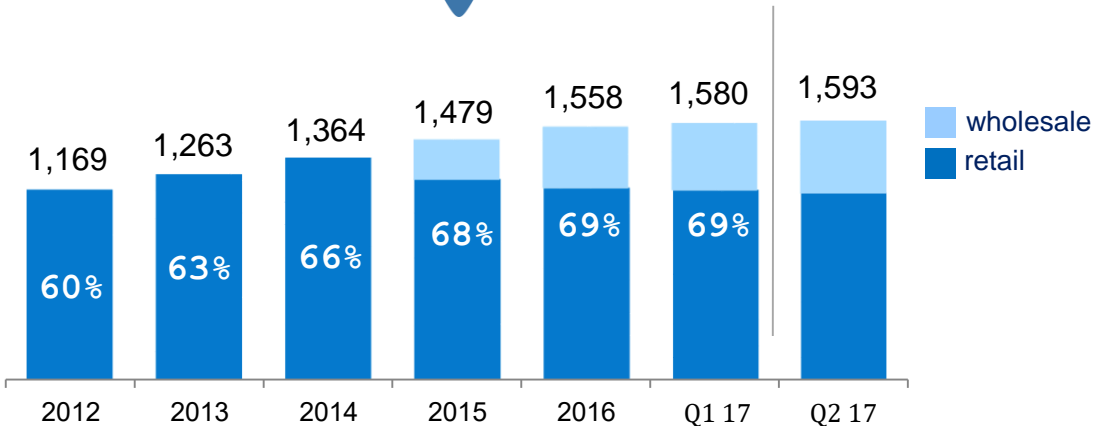
Broadband Market – Growing broadband market and increasing market share together with steady ARPU

Broadband penetration – still room to grow

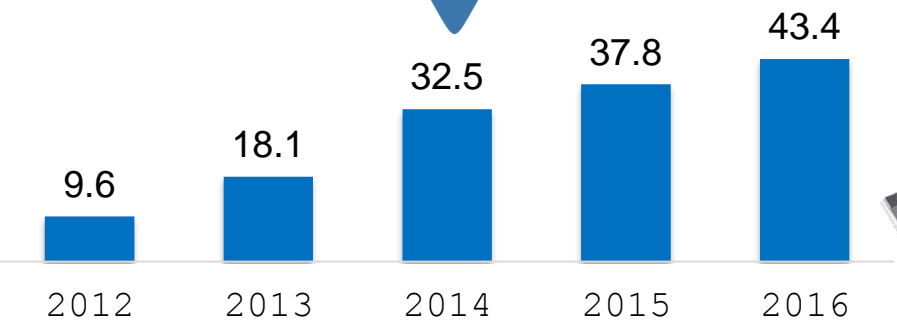


Source: Analysys Mason as of April 2017; Bezeq - Company estimates

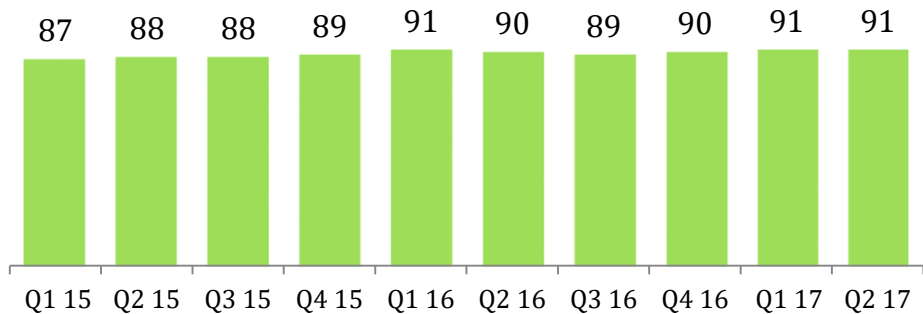
Bezeq broadband - steady increase in subscribers (in thousands, % market share infrastructure)



Average broadband speed per subscriber (Mbps)



Broadband Internet ARPU (in NIS) - Retail

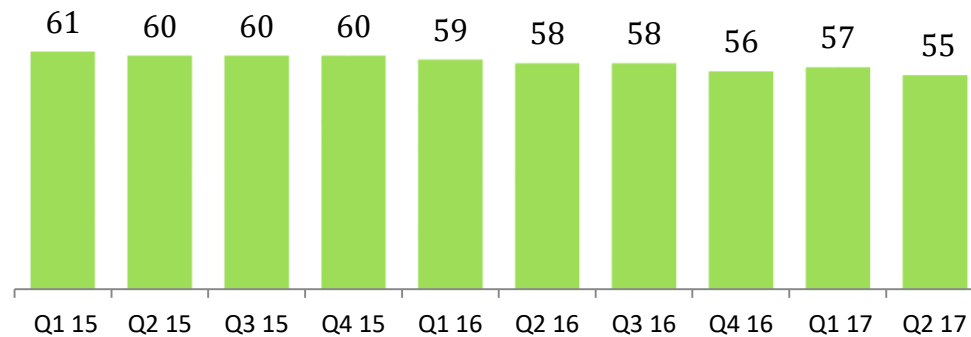


Fixed Line Telephony

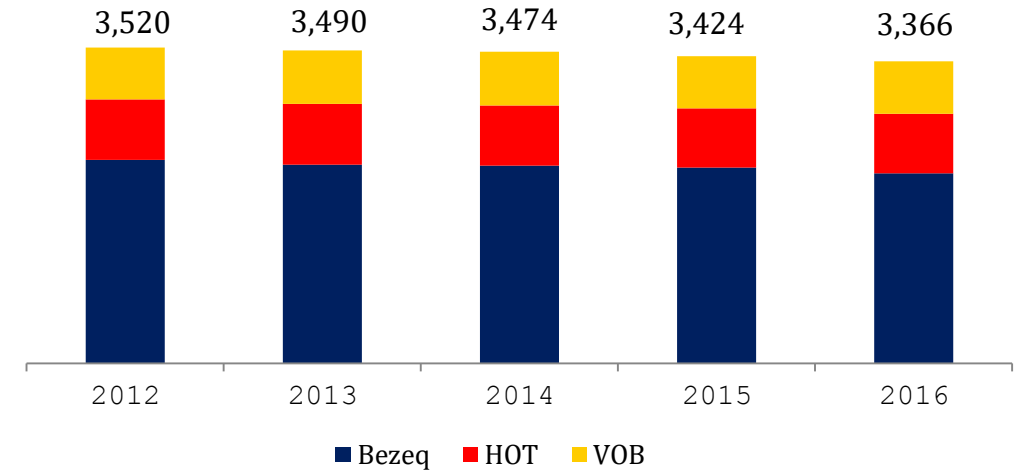
Moderate line erosion and nearly stable ARPL driven by demographics and geographic region



Average Revenue Per Line (NIS)



Total voice market remains stable
CAGR (1.2%)



Source: Company estimates



Bezeq's business activities are one of the company's engine growths

- Present in all businesses – almost every business has at least one Bezeq product
- Growth in sales of advanced DATA networks – METRO, SDH, IPVPN
- Growth in revenues from advanced telephony: HIPT, Centrex
- IOT solutions: Smart Business, Smart Cities/Smart Places
- Innovative ICT services : Virtual servers, cloud services, cyber

Cloud Computing



Online business directory



Cyber



Smart city



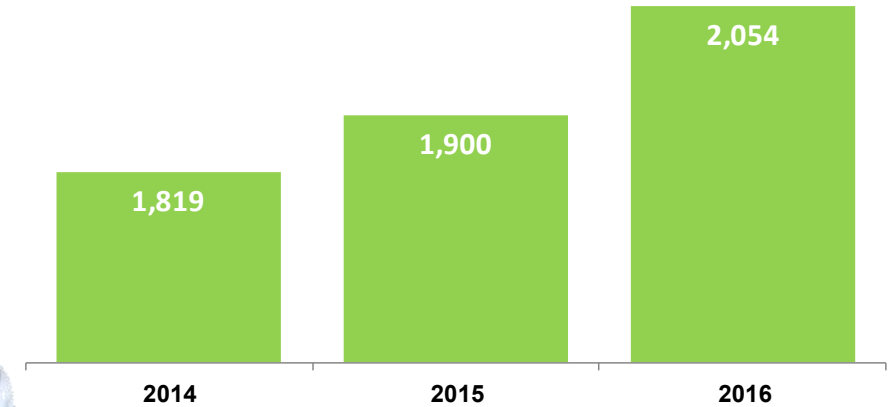
Smart business



Virtual Servers



Revenues from Business Customers
NIS Millions



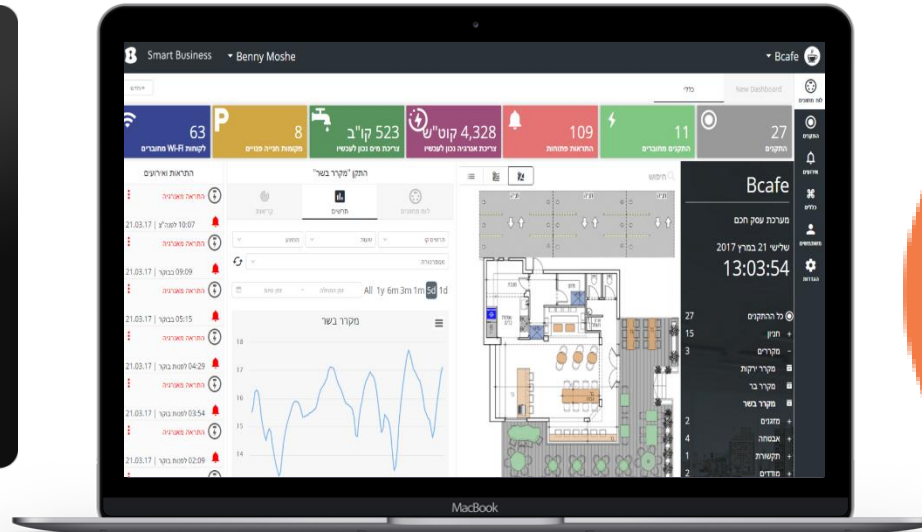
Bezeq's future growth drivers

During the last year, Bezeq introduced Israel to the digital revolution with a wide smart offering, and invited its customers across all segments to join the digital revolution

Smart City



Smart Business



Smart Home





פלאפון



Pelephone

Pelephone – Ultra Fast and most innovative mobile network in Israel



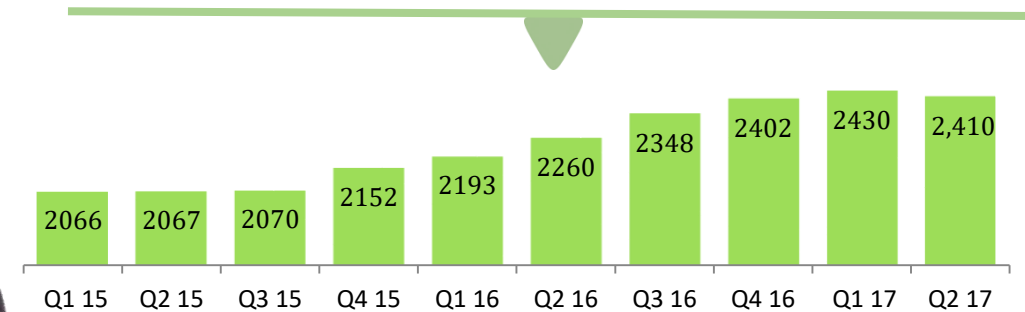
- Exclusive, wholly owned network enables full flexibility and control over future technology roadmap
- First to begin deployment of unique technologies for spectrum optimization (Beam forming, MIMO 4x4) - up to 50% improvement in speeds where deployed
- MOC approval to begin deployment of LTE Advanced high speed 4.5G network



Segmented marketing strategy and best in class sales distribution

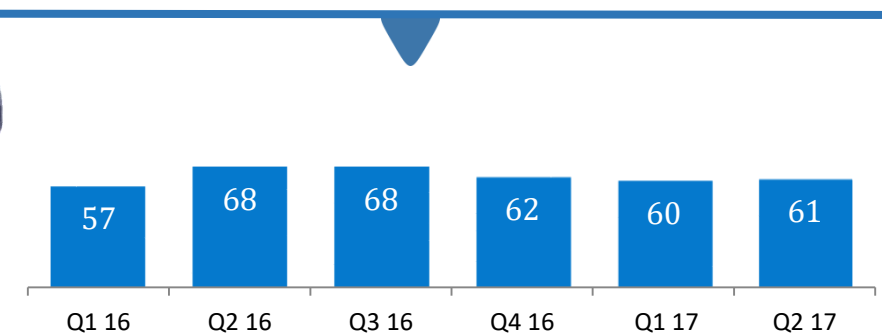
- Multi brand strategy to support subscribers growth and manage cannibalization
- Most extensive points-of- presence in Israel – mainly in retail chains – from 50 in 2016 to 230 in 2017
- Constantly growing customer base for the last 8 quarters

Telephone subscriber change (%)



* Q1 15 – Q1 16 adjusted for 499k sub write-off in Q2 2016

Telephone ARPU beginning to stabilize (NIS)

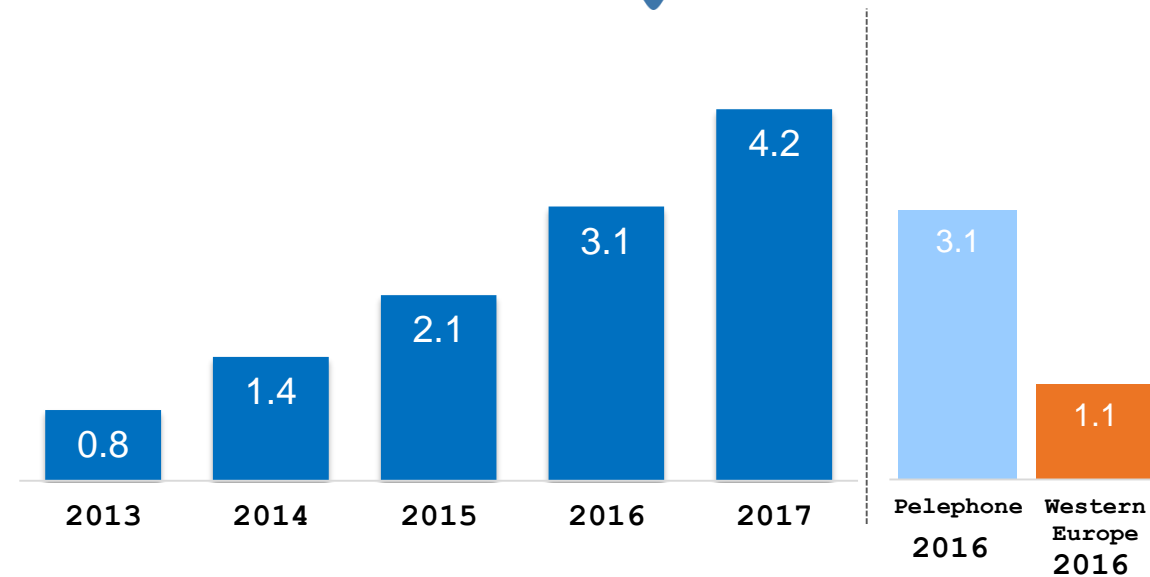


Pelephone - Future Upside

- Growing customer base increases the upside opportunity once market competitive dynamics stabilize
- Data monetization:
 - Rapidly increasing mobile broadband bandwidth consumption creates an opportunity to monetize this service in the future
 - New digital services (Big data, connected cars)



Pelephone customer mobile broadband consumption (Average GB per subscriber)



Source: Western Europe 2016 - CISCO

Pelephone is best positioned for future growth in relation to competitors





yes

yes - 3 Key elements of marketing strategy

Surveys consistently show yes provides the "best customer experience" in Israel

Best Customer Service



Great Viewing Experience



Best Content

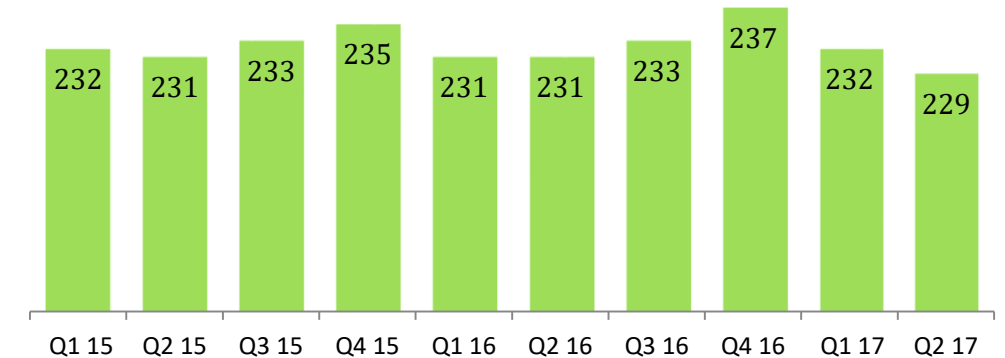


yes – Best in class

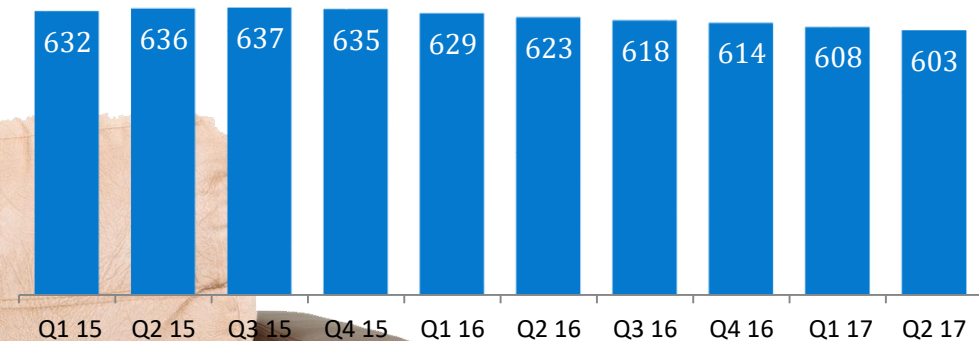
- Rich and highly valued local and international programming
- Innovative technologies (4K content, multi-room access to main PVR, TV everywhere, etc...)
- Best customer service in the pay TV market
- In the last two years the TV market has become very competitive with new OTT players (Cellcom TV, Netflix, etc.)



Stable ARPU (NIS)



Moderate Subscriber Loss (in 000's)



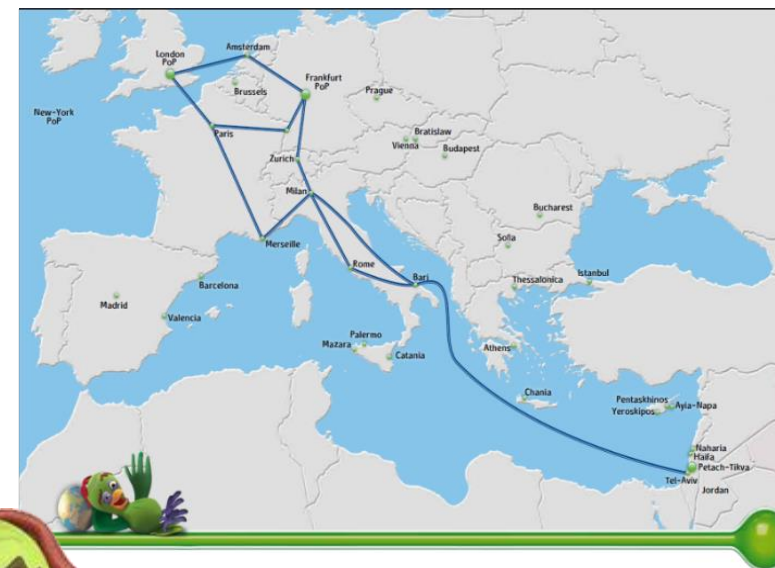


Bezeq International

Bezeq International – best in class technologies

- The only telecom player in Israel with direct ownership of a submarine cable connecting Israel to Europe
- Bezeq International's submarine cable as competitive edge:
 - Better serve its customers via virtually unlimited international bandwidth
 - Key differentiator versus competitors
 - Eliminates the need to lease capacity from third party submarine cable owners
- Ownership over largest data center network as a platform for growing cloud based services and applications

Global Network



WHERE NO ISRAELI INTERNET PROVIDER
HAS GONE BEFORE



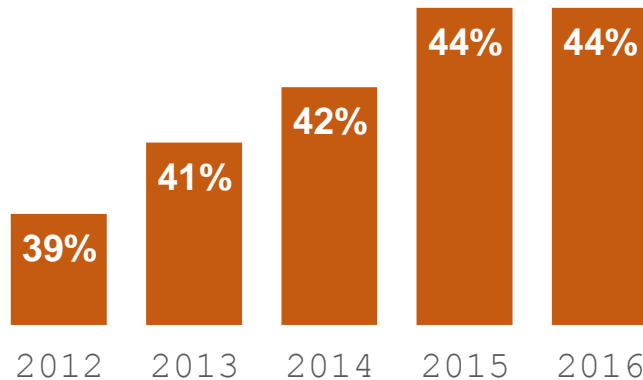
Bezeq International as a market leader in the ISP and ICT lines of business

ISP



- Leading broadband Internet service provider among dozens of players in Israel
- 44% Internet market share
- Cutting-edge infrastructure
- Customized service plans
- Advanced IP services

Bezeq International Broadband Market Share

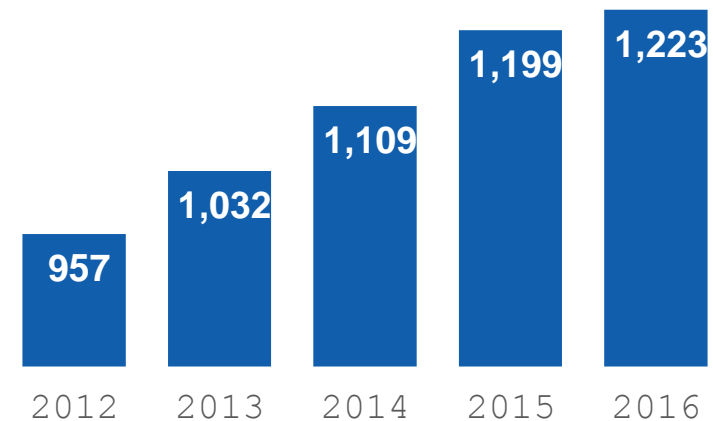


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

ICT



Bezeq International Revenues from Internet, Data, PBX and ICT (NIS m)

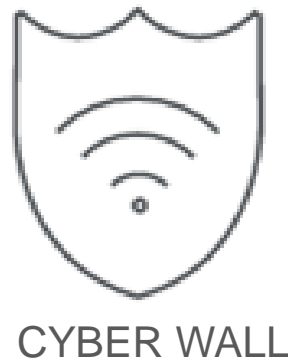


The future



Future growth engines

- Bezeq poised to benefit from Israeli "Start Up Nation" technologies
- Future growth engines will add to Bezeq's valuation
- Product offerings include cyber services, cloud services, big data solutions, IOT starter kit, Walla – digital advertising platform, etc...



Bhome



smart business



smart city

A blue rectangular graphic with a network of white dots and lines, representing a data network. The text "Big Data" is written in white, bold, sans-serif font in the center.

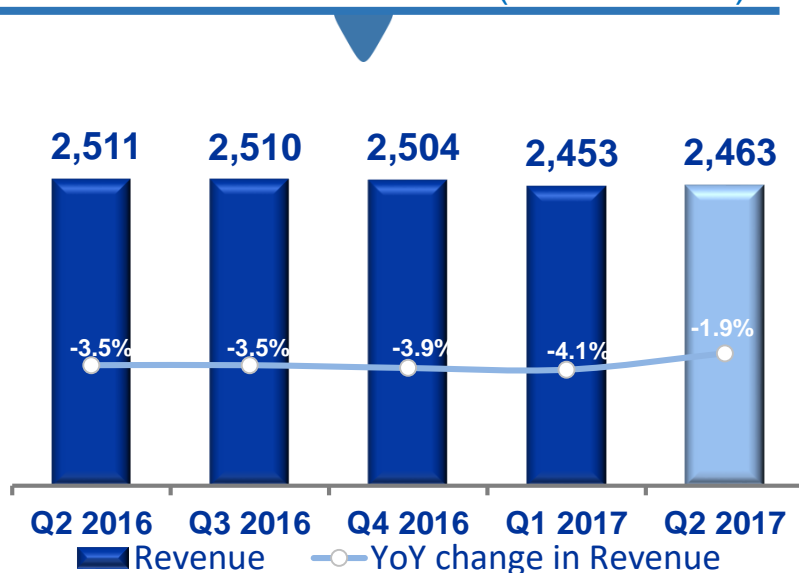
Big Data



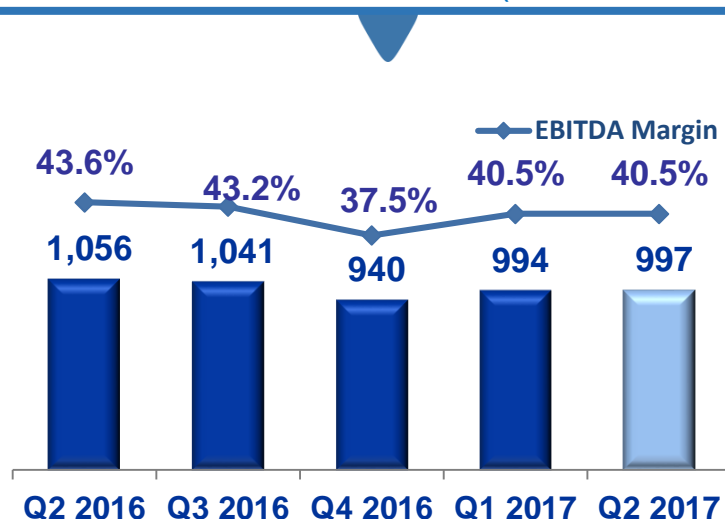
Bezeq Group – Financials

1H 2017 includes only NIS 19 million of capital gains from the sale of real estate

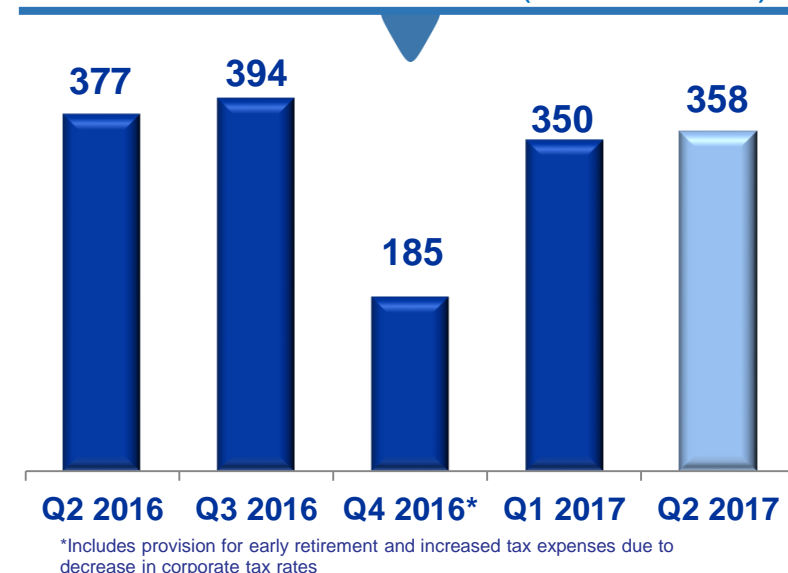
Consolidated Revenue (NIS Millions)



Consolidated EBITDA (NIS Millions)



Consolidated Net Profit (NIS Millions)



Consolidated CapEx (NIS Millions)



Operating Cash Flow (NIS Millions)



Bezeq Group – 2017 Guidance

Net profit :

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 positive 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.

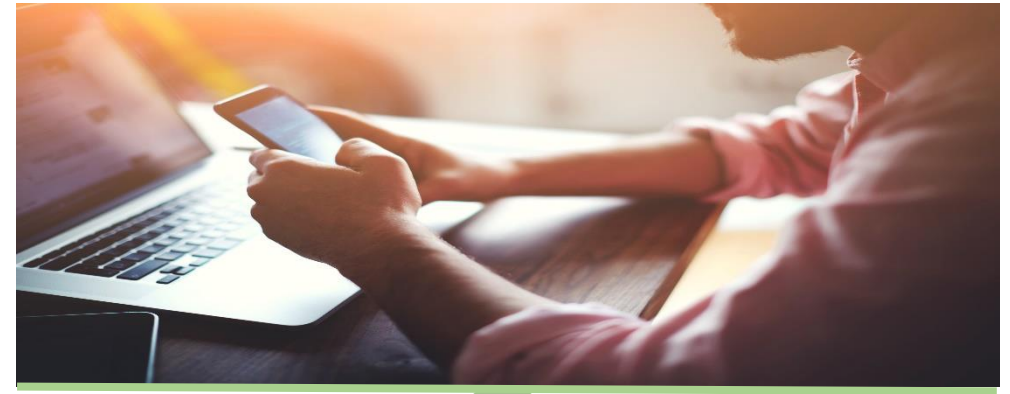
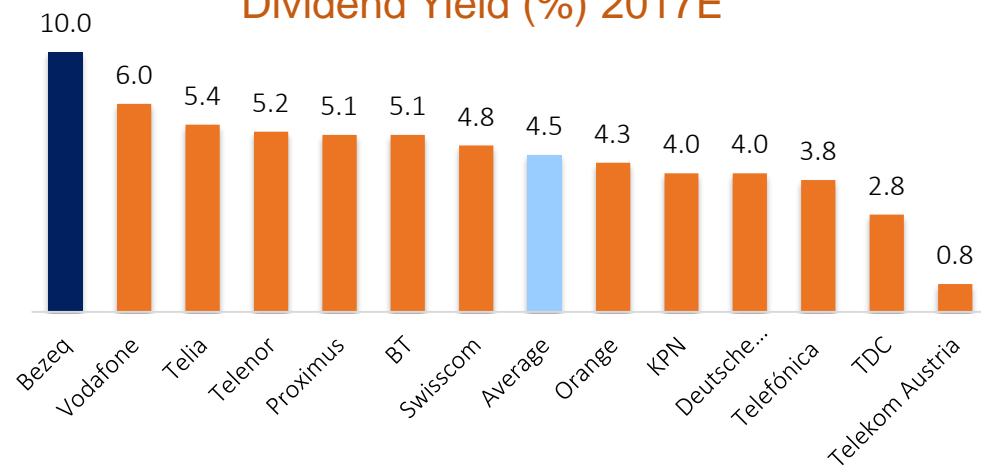


Sector Leading Dividend Policy

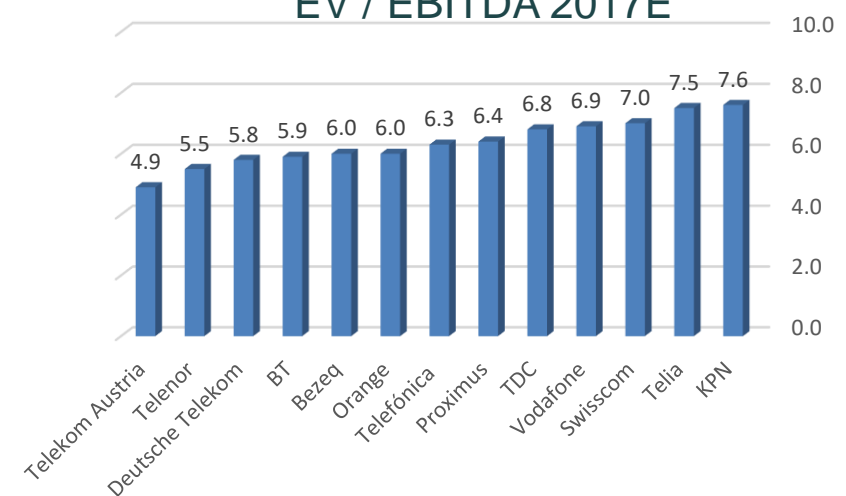
- Board of Directors approved dividend policy – 100% of net income on a semi-annual basis
- Since 2006, Bezeq has distributed 100% of net income each year + two special dividends
- 2017 estimated dividend yield ~ 10%



Dividend Yield (%) 2017E



EV / EBITDA 2017E



Bezeq – Key Take Aways



- Strong country economic growth
- State of the art infrastructure and high quality of service
- Regulatory limitations regarding structural separation
- Leading dividend yield among telecom peers
- New digital innovative growth engines

**Bezeq is well positioned for future growth
in the Israeli Telecom market**



Thank You

For more information please visit
<http://ir.bezeq.co.il>

