Press Release

BEZEQ GROUP REPORTS SECOND QUARTER 2018 FINANCIAL RESULTS

Tel Aviv, Israel – August 23, 2018 – Bezeq – The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), Israel's leading telecommunications provider, today announced its financial results for the three months ended June 30, 2018. Details regarding the investor conference call and webcast to be held today are included later in this press release.

Bezeq Group (consolidated)	Q2 2018	Q2 2017	% change
	(NIS millions)		
Revenues	2,333	2,463	(5.3%)
Operating profit	371	573	(35.3%)
EBITDA*	908	997	(8.9%)
EBITDA margin	38.9%	40.5%	
Net profit	195	358	(45.5%)
Diluted EPS (NIS)	0.07	0.13	(46.2%)
Cash flow from operating activities*	806	875	(7.9%)
Payments for investments[1]	611	406	50.5%
Free cash flow [2]	122	487	(74.9%)
Net debt/EBITDA (end of period)[3]	2.52	2.43	

* As of 1.1.2018, the Company has early adopted accounting standard IFRS 16 "Leases". The impact of the implementation of the accounting standard on EBITDA and cash flow from operating activities in the second quarter of 2018 was an increase of NIS 102 million and NIS 89 million, respectively.

[1] Includes payments of NIS 192 million for permit fees and taxes relating to the sale of "Sakia".

[2] Free cash flow is defined as cash flow from operating activities less net payments for investments and as of 2018, with the implementation of accounting standard IFRS 16, less payments for leases.

[3] EBITDA in this calculation refers to the trailing twelve months.

Shlomo Rodav, Bezeq's Chairman, stated, "The Board of Directors is progressing with the formulation of a new and comprehensive strategic plan for the Group, some of which is subject to various regulatory approvals, and we have already begun to implement parts of it. The plan will address the challenges facing the Group and the future needs that are emerging in the telecommunications market. Among other things, the plan will include a change in the legal structure of the subsidiary companies and incorporate significant steps toward streamlining and improving the Company's business performance, including a comprehensive plan for the voluntary retirement of employees, maximizing synergies between the various subsidiaries in the Group, the sale of non-core businesses and the provision of integrated communications solutions based on cutting-edge technologies. At the same time, we are focused on identifying and creating new growth engines, primarily in the areas of data analytics, cloud and digital services, and IOT applications. We intend to manage the change dynamically and progressively over time, taking into account technological changes and market needs as well as regulatory limitations. We will continue to lead the market even under conditions of frequent and significant changes in the business environment. We intend to respond to the competitive challenges with determination, with an emphasis on a high level of service for every home in Israel while taking into account regulatory constraints."

Yali Rothenberg, CPA, Bezeq Group's Chief Financial Officer commented, "The results of the quarter reflect the advantages in diversifying the Group's business portfolio where the relative weakness in one activity is offset by the results of the other activities. Bezeq Fixed-Line revenues increased slightly year over year while Pelephone's revenues from cellular services decreased by only 2% - this was against the background of a relatively stable trend in these revenues recently. The decrease in Bezeq International's revenues was due in large part to a decrease in revenues from activities with low profitability, and therefore the impact on the company's profitability was moderate. Although the implementation of yes's new price plan resulted in a decrease in revenues, yes managed to successfully stem the decreasing trend in the number of television subscribers. The Group's profitability metrics reflect non-recurring effects, mainly expenses for the retirement of employees, the benefits of which will be seen in future financial results. Free cash flow was affected to a great extent by timing differences arising from the payment of taxes and levies in respect of the Sakia property, the receipts of which have not yet been recognized."

Bezeq Group Results (Consolidated)

Revenues in the second quarter of 2018 were NIS 2.33 billion, compared to NIS 2.46 billion in the same quarter of 2017, a decrease of 5.3%. The increase in Bezeq Fixed-Line revenues was offset by lower revenues in Bezeq International (among other factors due to a large transaction in the ICT field recorded in the corresponding quarter) and yes as well as lower revenues in Pelephone (mainly equipment).

Salary expenses in the second quarter of 2018 were NIS 503 million, compared to NIS 494 million in the same quarter of 2017, an increase of 1.8%. The increase in salary expenses was due to higher expenses in Bezeq Fixed-Line.

Operating expenses in the second quarter of 2018 were NIS 838 million, compared to NIS 973 million in the same quarter of 2017, a decrease of 13.9%. The decrease in operating expenses was primarily due to the early adoption of accounting standard IFRS 16 whereby rental expenses relating to assets rented through operating leases are capitalized.

Other operating income/expenses, net in the second quarter of 2018 amounted to expenses of NIS 84 million, compared to income of NIS 1 million in the same quarter of 2017. This item was influenced by a provision of NIS 80 million for the early retirement of employees in Bezeq Fixed-line.

Depreciation expenses in the second quarter of 2018 were NIS 537 million, compared to NIS 424 million in the same quarter of 2017, an increase of 26.7%. The increase in depreciation expenses was primarily due to the amortization of right-of-use assets resulting from the early adoption of accounting standard IFRS 16 beginning January 1, 2018.

Profitability metrics in the second quarter of 2018 were influenced by the aforementioned decrease in revenues and the provision for the early retirement of employees in Bezeq Fixed-Line.

Operating profit in the second quarter of 2018 was NIS 371 million, compared to NIS 573 million in the same quarter of 2017, a decrease of 35.3%. **EBITDA** in the second quarter of 2018 was NIS 908 million (EBITDA margin of 38.9%), compared to NIS 997 million (EBITDA margin of 40.5%) in the same quarter of 2017, a decrease of 8.9%.

Financing expenses in the second quarter of 2018 were NIS 110 million, compared to NIS 102 million in the same quarter of 2017, an increase of 7.8%.

Tax expenses in the second quarter of 2018 were NIS 65 million, compared to NIS 111 million in the same quarter of 2017, a decrease of 41.4%. The decrease in tax expenses was primarily due to a reduction in profitability as well as a decrease in the corporate tax rate from 24% to 23% in 2018.

Net profit in the second quarter of 2018 was NIS 195 million, compared to NIS 358 million in the same quarter of 2017, a decrease of 45.5%. The decrease in net profit was primarily due to the aforementioned decrease in revenues and the provision for the early retirement of employees.

Cash flow from operating activities in the second quarter of 2018 was NIS 806 million compared to NIS 875 million in the same quarter of 2017, a decrease of 7.9%. The decrease in cash flow from operating activities was primarily due to the decrease in profitability and changes in working capital.

Payments for investments (Capex) in the second quarter of 2018 was NIS 611 million, compared to NIS 406 million in the same quarter of 2017, an increase of 50.5%. The increase in investments was primarily due to payments of NIS 192 million for permit fees and taxes relating to the sale of "Sakia".

Free cash flow in the second quarter of 2018 was NIS 122 million, compared to NIS 487 million in the same quarter of 2017, a decrease of 74.9%. The decrease in free cash flow was primarily due to timing differences resulting from the aforementioned payments in relation to the sale of "Sakia" while the proceeds from the sale have not yet been recorded.

Net financial debt of the Group was NIS 9.40 billion as of June 30, 2018 compared to NIS 9.65 billion as of June 30, 2017. As of June 30, 2018, the Group's net financial debt to EBITDA ratio was 2.52, compared to 2.43 as of June 30, 2017.

Dividend Announcement

In accordance with the Company's dividend policy, the Board of Directors recommended the distribution of 70% of net profits for the first half of 2018 as a cash dividend of NIS 318 million (approximately NIS 0.11 per share) to shareholders. The semi-annual dividend, which is subject to shareholder approval, would be payable on October 10, 2018. The ex-dividend date is September 27, 2018.

2018 Outlook

Below is the Bezeq Group's outlook for 2018, as published in the Company's periodic report as of December 31, 2017:

Net profit attributable to shareholders:	Approximately NIS 1.0 billion
EBITDA:	Approximately NIS 3.9 billion
Free cash flow*:	Approximately NIS 1.5 billion

The projected data includes the effect of early implementation of IFRS 16 as of January 1, 2018 of NIS 400 million on EBITDA and a negligible amount on the net profit.

The forecasts do not include effects from realization of the Company's rights in the "Sakia" property, which depend on the fulfillment of various conditions regarding the sale of the property. The actual results may differ from these assessments, depending on the date of recording the capital gain in respect of the sale of the asset, the final amount of the capital gain, which depends on the amounts of fees and levies that will apply to the Company in respect of the sale of the asset and on the date of receipt of the payments for the sale of the property.

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, including that the forecasts do not include the effects of the provision for early retirement of employees and/or the signing of collective labor agreements in the Group and cancellation of the Group’s structural separation, including the effects of mergers within the Group and everything involved. 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 2018. Actual results might 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, developments in the structure of the telecommunications market, and so forth, or if one or more of the risk factors listed in the periodic report of 2017.

*Cash flow from operating activities less net payments for investments and leases.

Bezeq Fixed-Line Results

Stella Handler, Bezeq CEO, commented, "During the quarter, our revenues grew to NIS 1.064 billion despite the challenging and increasingly competitive environment. This increase was achieved thanks to the continued expansion of our Internet business and the 15.8% increase in revenues from cloud and digital services. On the expense side, we continued to streamline and improve the cost structure, which was reflected, among other things, in the provision related to retirement of employees of NIS 80 million. These expenses led to a decrease in profitability metrics in the quarter, but will positively contribute to the financial results in future quarters. Against the backdrop of deepening competition, we have been able to preserve and develop a strong, professional and service-oriented company. We are doing this with the help of professional and skilled workers, who are positioning us at the cutting edge of technology and in an excellent position to realize the next generation technologies and services."

Revenues in the second quarter of 2018 were NIS 1.064 billion, compared to NIS 1.058 billion in the same quarter of 2017, an increase of 0.6%. The increase was primarily due to higher revenues from broadband Internet and cloud & digital services that were partially offset by a decrease in telephony revenues.

Revenues from broadband Internet services (retail and wholesale) in the second quarter of 2018 were NIS 403 million, compared to NIS 381 million in the same quarter of 2017, an increase of 5.8%.
The increase in revenues from broadband Internet services was primarily due to continued growth in the number of Internet lines, which reached 1.66 million subscribers, despite the decrease in retail broadband Internet subscribers.

Revenues from telephony services in the second quarter of 2018 were NIS 291 million, compared to NIS 320 million in the same quarter of 2017, a decrease of 9.1%. The decrease in telephony revenues was due to a reduction of 3.7% in the average revenue per line as well as a decrease of 4.9% in the number of access lines.

Revenues from transmission and data communication services in the second quarter of 2018 were NIS 244 million, in-line with the same quarter of 2017.

Revenues from cloud & digital services in the second quarter of 2018 totaled NIS 66 million, compared to NIS 57 million in the same quarter of 2017, an increase of 15.8%. The increase in revenues from cloud & digital services was primarily due to an increase in revenues from cyber services and virtual private exchange (HIPT) services.

Operating expenses in the second quarter of 2018 were NIS 145 million, compared to NIS 166 million in the corresponding quarter of 2017, a decrease of 12.7%. The decrease in operating expenses was primarily due to a reduction in the rental expenses of buildings and car rentals that were recognized as an asset due to the early adoption of accounting standard IFRS 16 as of January 1, 2018.

Salary expenses in the second quarter of 2018 were NIS 232 million, compared to NIS 220 million in the same quarter of 2017, an increase of 5.5%. The increase was due to an increase in salaries resulting from collective labor agreements partially offset by employee retirement.

Other operating income/expenses (net) in the second quarter of 2018 amounted to expenses of NIS 89 million, compared to income of NIS 1 million in the same quarter of 2017. Other operating income/expenses was influenced by a provision of NIS 80 million for the early retirement of employees compared to NIS 12 million in the corresponding quarter.

Depreciation expenses in the second quarter of 2018 were NIS 211 million, compared to NIS 177 million in the same quarter of 2017, an increase of 19.2%. The increase in depreciation expenses was primarily due to the amortization of right-of-use assets as a result of the early adoption of accounting standard IFRS 16 as of January 1, 2018.

Profitability metrics in the second quarter of 2018 were influenced by the aforementioned provision for the early retirement of employees.

Operating profit in the second quarter of 2018 totaled NIS 387 million, compared to NIS 496 million in the same quarter of 2017, a decrease of 22.0%.

EBITDA in the second quarter of 2018 totaled NIS 598 million (EBITDA margin of 56.2%) compared to NIS 673 million (EBITDA margin of 63.6%) in the same quarter of 2017, a decrease of 11.1%.

After **adjusting** for other operating income/expenses and the effect of the adoption of accounting standard IFRS 16, **EBITDA** in the second quarter of 2018 totaled NIS 664 million compared to NIS 672 million in the same quarter of 2017, a decrease of 1.2%.

Financing expenses in the second quarter of 2018 were NIS 119 million, compared to NIS 82 million in the same quarter of 2017, an increase of 45.1%. The increase in financing expenses was primarily due a decrease of approximately NIS 27 million in the net fair value of the amount estimated to be returned to the Company from the advance payments made for the second contingent consideration in relation to the acquisition of yes.

Tax expenses in the second quarter of 2018 were NIS 66 million, compared to NIS 97 million in the same quarter of 2017, a decrease of 32.0%. The decrease in tax expenses was due to a reduction in profitability as well as a decrease in the corporate tax rate from 24% to 23% in 2018.

Net profit in the second quarter of 2018 totaled NIS 202 million, compared to NIS 317 million in the same quarter of 2017, a decrease of 36.3%. The decrease in net profit was primarily due to the aforementioned provision for the early retirement of employees.

Cash flow from operating activities in the second quarter of 2018 was NIS 507 million, compared to NIS 465 million in the same quarter of 2017, a decrease of 9.0%. The decrease in cash flow from operating activities was primarily due to the early adoption of accounting standard IFRS 16 as of January 1, 2018 as well as changes in working capital.

Payments for investments (Capex) in the second quarter of 2018 was NIS 393 million, compared to NIS 219 million in the same quarter of 2017, an increase of 79.5%. The increase in investments was primarily due to payments of NIS 192 million for permit fees and taxes relating to the sale of "Sakia".

Free cash flow in the second quarter of 2018 was NIS 107 million, compared to NIS 262 million in the same quarter of 2017, a decrease of 59.2%. The decrease in free cash flow was due to timing differences resulting from the aforementioned payments in relation to the sale of "Sakia" while the proceeds from the sale have not yet been recorded.

In the second quarter of 2018, the Company added 9,000 broadband Internet lines (retail and wholesale), totaling 1.66 million. The number of wholesale broadband Internet lines continued to grow and reached 600,000 lines, representing a sequential increase of 26,000 lines. During the past year, the number of wholesale lines grew by 156,000.

During the second quarter of 2018, **average broadband speeds** reached 55.4 Mbps, compared to 53.5 Mbps sequentially, and 47.2 Mbps in the second quarter of 2017, representing a year-over-year increase of 17.4%.

Average revenue per Internet subscriber (ARPU - retail) in the second quarter of 2018 was NIS 93, compared to NIS 92 sequentially and NIS 90 in the second quarter of 2017.

The number of **telephony access lines** totaled 1.865 million at the end of June 2018, compared to 1.889 million sequentially and 1.961 million at the end of June 2017.

Average revenue per line (**ARPL**) in the second quarter of 2018 totaled NIS 52, compared to NIS 53 sequentially and NIS 54 in the second quarter of 2017.

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Bezeq Fixed-Line - Financial data	Q2 2018	Q2 2017	% change
	(NIS millions)		
Total revenues	1,064	1,058	0.6%
Broadband Internet revenues	403	381	5.8%
Telephony revenues	291	320	(9.1%)
Transmission and data revenues	244	244	0.0%
Cloud & digital services revenues	66	57	15.8%
Other revenues	60	56	7.1%
Operating profit	387	496	(22.0%)
EBITDA*	598	673	(11.1%)
EBITDA margin	56.2%	63.6%	
Net profit[1]	202	317	(36.3%)
Cash flows from operating activities*	507	465	9.0%
Payments for investments[2]	393	219	79.5%
Free cash flow[3]	107	262	(59.2%)

* As of 1.1.2018, the Company has early adopted accounting standard IFRS 16 "Leases". The impact of the implementation of the accounting standard on EBITDA and cash flow from operating activities in the second quarter of 2018 was an increase of NIS 23 million and NIS 22 million, respectively.

[1] Excluding share in profits/losses of equity-accounted investees.

[2] Includes payments of NIS 192 million for permit fees and taxes relating to the sale of "Sakia".

[3] Free cash flow is defined as cash flow from operating activities less net payments for investments and as of 2018, with the implementation of accounting standard IFRS 16, less payments for leases.

Bezeq Fixed-Line - KPIs	Q2 2018	Q1 2018	Q2 2017
Active subscriber lines (in thousands) [1]	1,865	1,889	1,961
Average monthly revenue per line (NIS) [2]	52	53	54
Outgoing minutes (millions)	1,010	1,055	1,098
Incoming minutes (millions)	1,153	1,191	1,220
Churn rate (%) [3]	2.8%	3.0%	2.4%
Total broadband Internet lines (in thousands)[4]	1,662	1,653	1,593
Of which: Wholesale broadband Internet lines (in thousands) [4]	600	574	444
Average monthly revenue per broadband Internet subscriber (NIS) - Retail	93	92	90
Average broadband speed per subscriber (end of period, Mbps)	55.4	53.5	47.2

[1] Inactive subscribers are those whose lines have been physically disconnected (except for a subscriber in the first three months of collection proceedings). Active subscriber lines are presented at the end of each period.

[2] Not including revenues from data communications and transmissions services, Internet services, services to communications providers, and contract and other services. Based on average lines for the period.

[3] Churn rate is calculated according to the number of telephone subscribers who have disconnected from the Company's services during the period, divided by the average number of telephone subscribers during the period.

[4] The total number of broadband Internet lines includes retail and wholesale lines. Retail - direct Internet subscriber of the Company; Wholesale - Internet line through Bezeq's wholesale service for telecom operators. Broadband Internet lines are presented at the end of each period.

Pelephone Results

Ran Guron, CEO of Pelephone, stated, “Our growth strategy and the expansion of our distribution channels proved itself with the addition of 40,000 postpaid subscribers during a quarter characterized by a particularly high level of competition, which was reflected in a decline in prices and increase in data volumes. Stable revenues alongside continued streamlining of operations testify to our strength in the cellular sector in Israel."

Guron added that "In the first half of the year, we continued to invest in creating new growth engines for the company, including IoT solutions for businesses, Pelephone Car service and PTT service. In addition, we continue to provide the best service in the industry, as published in the Ministry of Communications report and in the Public Trust Report."

Revenues from services in the second quarter of 2018 were NIS 438 million, compared to NIS 431 million sequentially and NIS 449 million in the same quarter of 2017, a quarter-over-quarter increase of 1.6% and a year-over-year decrease of 2.4%.

The relative stability in revenues from cellular services was due to the increase in revenues from new subscribers that offset the decrease in average revenue per subscriber due to the transition of existing customers to lower priced plans including higher data plans corresponding to current market prices.

Revenues from equipment sales in the second quarter of 2018 were NIS 164 million, compared to NIS 188 million sequentially and NIS 183 in the same quarter of 2017, a decrease of 12.8% and 10.4%, respectively. The decrease in revenues from equipment sales was due to the lack of launches of significant handsets in the quarter.

Total revenues in the second quarter of 2018 were NIS 602 million, compared to NIS 619 million sequentially and NIS 632 million in the same quarter of 2017, a decrease of 2.7% and 4.7%, respectively.

Operating expenses in the second quarter of 2018 decreased NIS 17 million sequentially and NIS 2 million compared to the same quarter of 2017, a decrease of 3% and 0.4% respectively.

Operating profit in the second quarter of 2018 was NIS 2 million, in-line sequentially and compared to NIS 30 million in the same quarter of 2017, a decrease of 93.3%.

EBITDA in the second quarter of 2018 was NIS 161 million (EBITDA margin of 26.8%), compared to NIS 160 million sequentially (EBITDA margin of 25.8%) and NIS 129 million (EBITDA margin of 20.4%) in the same quarter of 2017, an increase of 24.8%. The increase in EBITDA was due to the capitalization of NIS 63 million of leasing expenses due to the early adoption of accounting standard IFRS 16 beginning January 1, 2018 which was partially offset by a decrease in revenues from services and handset sales as well as estimate adjustments which led to a reduction in operating expenses in the corresponding quarter.

Net profit in the second quarter of 2018 was NIS 7 million, compared to NIS 9 million sequentially and NIS 34 million in the same quarter of 2017, a decrease of 22.2% and 79.4%, respectively.

Cash flow from operating activities in the second quarter of 2018 was NIS 181 million, compared to 193 million in the same quarter of 2017, a decrease of 6.2%. The decrease in cash flow from operating activities was primarily due to a decrease in profitability as well as changes in working capital, partially offset by an increase of NIS 50 million due to the reclassification of payments in respect of lease agreements to cash flow from financing activities as a result of the early adoption of the accounting standard IFRS 16 beginning January 1, 2018.

Free cash flow in the second quarter of 2018 was NIS 41 million compared to NIS 111 million in the same quarter of 2017, a decrease of 63.1%. Free cash flow was not influenced by the adoption of accounting standard IFRS 16.

Pelephone's subscriber base continued to grow with an increase of 55,000 new subscribers (40,000 postpaid and 15,000 prepaid) in the second quarter of 2018 to a total of 2.601 million at the end of June 2018.

During the third quarter of 2018, Pelephone will write-off 426,000 prepaid subscribers pursuant to adjustments made in defining an inactive subscriber. These subscribers did not make an outgoing call during the past six months, most of them joined more than three years ago and they do not generate significant revenue for the Company.

Average revenue per subscriber (ARPU) in the second quarter of 2018 was NIS 57, in-line sequentially and compared to NIS 61 in the corresponding quarter of 2017.

Pelephone - Financial data	Q2 2018	Q2 2017	% change
	(NIS millions)		
Total revenues	602	632	(4.7%)
Service revenues	438	449	(2.4%)
Equipment revenues	164	183	(10.4%)
Operating profit	2	30	(93.3%)
EBITDA*	161	129	24.8%
EBITDA margin	26.8%	20.4%	
Net profit	7	34	(79.4%)
Cash flows from operating activities*	181	193	(6.2%)
Payments for investments	90	82	9.8%
Free cash flow [1]	41	111	(63.1%)

* As of 1.1.2018, the Company has early adopted accounting standard IFRS 16 "Leases". The impact of the implementation of the accounting standard on EBITDA and cash flow from operating activities in the second quarter of 2018 was an increase of NIS 63 million and NIS 50 million, respectively.

1 Free cash flow is defined as cash flow from operating activities less net payments for investments and as of 2018, with the implementation of accounting standard IFRS 16, less payments for leases.

Pelephone - KPIs	Q2 2018	Q1 2018	Q2 2017
Total subscribers (end of period, in thousands) [1]	2,601	2,546	2,410
Average revenue per user (ARPU, NIS) [2]	57	57	61
Churn rate [3]	7.3%	8.0%	6.3%

[1] Subscriber data includes Pelephone subscribers (excluding subscribers of operators that Pelephone hosts on its network) and do not include inactive subscribers who are connected to Pelephone's services for six months or more. An inactive subscriber is one who in the past six months has not received at least one call, not made at least one call/SMS, did not take one Internet action nor pay for any Pelephone services. A customer may have more than one subscriber line.

[2] Average monthly revenue per subscriber is calculated by dividing average monthly revenue from cellular services, both from Pelephone subscribers and from other communications operators, including revenues from cellular operators who use Pelephone's network, and repair and warranty services in the period by average Pelephone active subscribers in the same period.

[3] Churn rate is calculated according to the proportion of subscribers who have disconnected from the Company's services and subscribers who have become inactive during the period, divided by the total number of average active subscribers during the period.

Bezeq International Results

Moti Elmaliach, CEO of Bezeq International, said, "The complex market and growing competition have forced us to create a new path of innovation and new growth engines. Our leadership in cyber protection services and the company's expansion in the business market of cloud and data center services will strengthen the company's activity going forward. On the cyber protection front, we have more than 700 thousand cyber-protection services for customers."

Revenues in the second quarter of 2018 totaled NIS 336 million, compared to NIS 407 million in the same quarter of 2017, a decrease of 17.4%. The decrease in revenues was primarily due to one-time revenues recorded in the corresponding quarter coupled with a decrease in sales of communication solutions for business customers and the continued erosion of revenues from international calls.

Profitability metrics were influenced by the decrease in sales of communication solutions and the significant decrease in international calls and hubbing sectors.

Operating profit in the second quarter of 2018 was NIS 30 million, compared to NIS 45 million in the same quarter of 2017, a decrease of 33.3%.

EBITDA in the second quarter of 2018 was NIS 75 million (EBITDA margin of 22.3%), compared to NIS 78 million (EBITDA margin of 19.2%) in the same quarter of 2017, a decrease of 3.8%.

Net profit in the second quarter of 2018 was NIS 20 million, compared to NIS 33 million in the same quarter of 2017, a decrease of 39.4%.

Cash flow from operating activities in the second quarter of 2018 was NIS 54 million, compared to NIS 69 million in the same quarter of 2017, a decrease of 21.7%.
Free cash flow in the second quarter of 2018 was NIS 1 million compared to NIS 23 million in the same quarter of 2017, a decrease of 95.7%.

The decrease in cash flow from operating activities and free cash flow was primarily due to a decrease in profitability as well as timing differences in working capital.

Bezeq International	Q2 2018	Q2 2017	% change
	(NIS millions)		
Revenues	336	407	(17.4%)
Operating profit	30	45	(33.3%)
EBITDA*	75	78	(3.8%)
EBITDA margin	22.3%	19.2%	
Net profit	20	33	(39.4%)
Cash flows from operating activities*	54	69	(21.7%)
Payments for investments	44	46	(4.3%)
Free cash flow [1]	1	23	(95.7%)

* As of 1.1.2018, the Company has early adopted accounting standard IFRS 16 "Leases". The impact of the implementation of the accounting standard on EBITDA and cash flow from operating activities in the second quarter of 2018 was an increase of NIS 9 million each.

[1] Free cash flow is defined as cash flow from operating activities less net payments for investments and as of 2018, with the implementation of accounting standard IFRS 16, less payments for leases.

yes Results

Ran Guron, CEO of yes, stated, "Today, we are announcing an impressive achievement, which demonstrates that the strategy we introduced at the start of the year with our *yes* ***ULTIMATE*** initiative (offering greater value at a standard price of NIS 199 for all customers), along with our ***STING****TV* service, is paying off. We have stemmed our subscriber losses of the past two and a half years, and have even posted growth in our subscriber base; revenues are stabilizing as compared to the previous quarter, and monthly ARPU has also grown quarter-on-quarter. These achievements are particularly remarkable in an extremely competitive market and a challenging business environment. We currently have the leading product offering in the television market, including groundbreaking and award-wining content, both original and international, innovative products and outstanding customer service. All these are offered by a brand which was just recently awarded first place in the brand index, out of all telecom companies."

Revenues in the second quarter of 2018 were NIS 375 million, in-line sequentially and compared to NIS 416 million in the same quarter of 2017, a decrease of 9.9%. The decrease in revenues was primarily due to a reduction in the average number of subscribers as well as a decrease in the average revenue per subscriber.

Operating loss in the second quarter of 2018 was NIS 17 million compared to a profit of NIS 49 million in the same quarter of 2017. The decrease was primarily due to a reduction in revenues, a provision for legal claims and an increase in content expenses.

EBITDA in the second quarter of 2018 was NIS 62 million (EBITDA margin of 16.5%), compared to NIS 120 million (EBITDA margin of 28.8%) in the same quarter of 2017, a decrease of 48.3%.

Financing expenses, net in the second quarter of 2018 were income of NIS 7 million, compared to expenses of NIS 32 million in the same quarter of 2017. Financing expenses were influenced by a change in the fair value of financial assets as well as a decrease in financing expenses in respect of debentures due to the conversion of Bezeq's share in the debentures to equity.

Net loss in the second quarter of 2018 was NIS 10 million compared to NIS 151 million in the same quarter of 2017. The decrease was due to a decrease in the tax asset in the corresponding quarter as well as changes in net financing income in the current quarter. After adjusting for the decrease in the tax asset and the one-time provision for legal claims, net profit in the current quarter was less than NIS 1 million, compared to NIS 12 million in the corresponding quarter.

Cash flow from operating activities in the second quarter of 2018 was NIS 60 million compared to NIS 169 million in the same quarter of 2017, a decrease of 64.5%. The decrease in cash flow from operating activities was due to a decrease in profitability as well as changes in working capital.

ARPU in the second quarter of 2018 was NIS 215, compared to NIS 214 sequentially and NIS 229 in the same quarter of 2017, a decrease of 6.1% compared to the corresponding quarter.

The number of yes **subscribers** in the second quarter of 2018 increased by 2,000 to a total of 582,000 subscribers.

yes - Financial data	Q2 2018	Q2 2017	% change
	(NIS millions)		
Revenues	375	416	(9.9%)
Operating profit	(17)	49	
EBITDA*	62	120	(48.3%)
EBITDA margin	16.5%	28.8%	
Net profit (loss)	(10)	(151)	(93.4%)
Cash flows from operating activities*	60	169	(64.5%)
Payments for investments	75	53	41.5%
Free cash flow [1]	(23)	117	

* As of 1.1.2018, the Company has early adopted accounting standard IFRS 16 "Leases". The impact of the implementation of the accounting standard on EBITDA and cash flow from operating activities in the second quarter of 2018 was an increase of NIS 8 million each.

[1] Free cash flow is defined as cash flow from operating activities less net payments for investments and as of 2018, with the implementation of accounting standard IFRS 16, less payments for leases.

yes - KPIs	Q2 2018	Q1 2018	Q2 2017
Number of subscribers (end of period, in thousands) [1]	582	580	603
Average revenue per user (ARPU, NIS) [2]	215	214	229
Churn rate (%) [3]	4.7%	6.1%	3.8%

[1] Subscriber – one household or small business customer. For a business customer with numerous intake points or set top boxes (such as a hotel, kibbutz or gym), the number of subscribers is calculated by dividing the total payment received from the business customer by the average revenue from a small business customer.

[2] ARPU includes total yes revenues (content and equipment, premium channels, advanced services, and others) divided by average subscribers for the period.

[3] Churn rate - the number of yes subscribers who left yes during the period divided by the average number of registered yes subscribers in the period.

Conference Call & Webcast Information

Bezeq will conduct a conference call hosted by Mr. Shlomo Rodav, Bezeq's Chairman, and Mr. Yali Rothenberg, Bezeq's Chief Financial Officer on Thursday, August 23, 2018, at 4:00 PM Israel Time / 9:00 AM Eastern Time. Participants may join the live conference call by dialing:

International Phone Number: + 972-3-918-0609
Israel Phone Number: 03-918-0609

A live webcast of the conference call will be available on the investor relations section of the Bezeq corporate website at www.bezeq.co.il. Please visit the website at least 15 minutes early to register for the webcast and download any necessary audio software.

A webcast replay will be made available on the investor relations section of Bezeq's corporate website. An automated telephone replay will also be available approximately three hours after the completion of the live call through Wednesday, August 29, 2018. Participants can access and listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5901
Israel Phone Number: 03-925-5901

About "Bezeq" The Israel Telecommunication Corp.

Bezeq is Israel's leading telecommunications service provider. Established in 1984, the Company has led Israel into the new era of communications, based on the most advanced technologies and services. Bezeq and its subsidiaries offer the full range of communications services including domestic, international and cellular phone services; broadband Internet, cloud and digital services, and other data communications; satellite and Internet based multi-channel TV; and corporate networks.

For more information about Bezeq please visit the corporate website at http://ir.bezeq.co.il.

This press release contains general data and information as well as forward looking statements about Bezeq. Such statements 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. These forward-looking statements are made only as of the date hereof and the Company assumes no obligation to update any forward-looking statement. 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 the Corporation, including the risk factors that are characteristic of its operations, and developments in the general environment, and external factors and the regulation that affects the Corporation's operations.

This press release 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 press release 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 press release 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.

This press release does not constitute an offer or invitation to purchase or subscribe for any securities, and neither this presentation nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever.

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"Bezeq" The Israel Telecommunication Corp., Limited
Condensed Consolidated Interim Income Statements

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**4,694**	4,916	**2,333**	2,463	9,789
Costs of activity					
General and operating expenses	**1,679**	1,932	**838**	973	3,891
Salaries	**1,013**	998	**503**	494	2,005
Depreciation and amortization	**1,062**	852	**537**	424	1,715
Other operating expenses (income), net	**107**	(5)	**84**	(1)	68
	3,861	3,777	**1,962**	1,890	7,679
Operating profit	**833**	1,139	**371**	573	2,110
Financing expenses (income)					
Financing expenses	**256**	246	**129**	120	477
Financing income	**(38)**	(43)	**(19)**	(18)	(60)
Financing expenses, net	**218**	203	**110**	102	417
Profit after financing expenses, net	**615**	936	**261**	471	1,693
Share in losses of equity-accounted investees	**(2)**	(4)	**(1)**	(2)	(5)
Profit before income tax	**613**	932	**260**	469	1,688
Income tax	**158**	224	**65**	111	453
Profit for the period	**455**	708	**195**	358	1,235
Basic earnings per share (NIS)	**0.16**	0.26	**0.07**	0.13	0.45

"Bezeq" The Israel Telecommunication Corp., Limited
Condensed Consolidated Interim Balance Sheets

	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	**923**	1,854	2,181
Investments	**1,676**	19	289
Trade receivables	**1,822**	1,991	1,915
Other receivables	**288**	347	270
Inventory	**96**	105	125
Eurocom DBS Ltd., related party	**25**	56	43
Total current assets	**4,830**	4,372	4,823
Trade and other receivables	**447**	507	493
Broadcasting rights, net of rights exercised	**467**	456	454
Right-of-use assets	**1,424**	-	-
Fixed assets	**6,811**	6,868	6,798
Intangible assets	**2,687**	2,943	2,768
Deferred tax assets	**1,035**	1,015	1,019
Deferred expenses and non-current investments	**530**	457	494
Investment property	**130**	-	-
Total non-current assets	**13,531**	12,246	12,026
Total assets	**18,361**	16,618	16,849

"Bezeq" The Israel Telecommunication Corp., Limited
Condensed Consolidated Interim Balance Sheets (Cont'd)

	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	**1,796**	958	1,632
Current maturities of liabilities for leases	**417**	-	-
Trade and other payables	**1,583**	1,608	1,699
Employee benefits	**369**	318	280
Provisions	**110**	79	94
Current tax liabilities	**-**	112	152
Total current liabilities	**4,275**	3,075	3,857
Loans and debentures	**10,204**	10,561	10,229
Liability for leases	**1,034**	-	-
Employee benefits	**267**	259	272
Derivatives and other liabilities	**210**	251	234
Liabilities for deferred taxes	**74**	99	73
Provisions	**40**	48	40
Total non-current liabilities	**11,829**	11,218	10,848
Total liabilities	**16,104**	14,293	14,705
Total equity	**2,257**	2,325	2,144
Total liabilities and equity	**18,361**	16,618	16,849

"Bezeq" The Israel Telecommunication Corp., Limited
Condensed Consolidated Interim Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**455**	708	**195**	358	1,235
Adjustments:					
Depreciation and amortization	**1,062**	852	**537**	424	1,715
Share in losses of equity-accounted investees	**2**	4	**1**	2	5
Financing expenses, net	**224**	227	**113**	117	426
Capital gain, net	**(6)**	(19)	**(5)**	(13)	(66)
Income tax	**158**	224	**65**	111	453
Loss from impairment of goodwill	**-**	-	**-**	-	87
Change in trade and other receivables	**134**	16	**60**	23	193
Change in inventory	**13**	(12)	**18**	8	(35)
Change in trade and other payables	**(110)**	(39)	**(152)**	(15)	10
Change in provisions	**15**	(1)	**7**	(2)	15
Change in employee benefits	**84**	3	**77**	9	(33)
Change in other liabilities	**(16)**	(34)	**(17)**	(25)	(34)
Net income tax paid	**(300)**	(228)	**(93)**	(122)	(446)
Net cash from operating activities	**1,715**	1,701	**806**	875	3,525

"Bezeq" The Israel Telecommunication Corp., Limited
Condensed Consolidated Interim Statements of Cash Flows (Cont'd)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow used for investing activities					
Purchase of fixed assets	**(581)**	(580)	**(308)**	(303)	(1,131)
Investment in intangible assets and deferred expenses	**(206)**	(206)	**(111)**	(103)	(399)
Payment of permit fees for the Sakia complex	**(112)**	-	**(112)**	-	-
Investment in deposits with banks and others	**(1,934)**	-	**(764)**	-	(276)
Proceeds from bank deposits and others	**563**	558	**488**	554	564
Proceeds from the sale of fixed assets	**31**	28	**23**	18	98
Payment of betterment tax for the sale of the Sakia complex	**(80)**	-	**(80)**	-	-
Miscellaneous	**8**	1	**4**	8	(4)
Net cash flows from (used in) investment activities	**(2,311)**	(199)	**(860)**	174	(1,148)

"Bezeq" The Israel Telecommunication Corp., Limited
Condensed Consolidated Interim Statements of Cash Flows (Cont'd)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2018*	2017	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow from financing activities					
Issue of debentures and receipt of loans	**320**	1,418	**-**	1,418	2,517
Repayment of debentures and loans	**(182)**	(869)	**(182)**	(645)	(1,587)
Payments of principal and interest for leases	**(221)**	-	**(96)**	-	-
Dividend paid	**(368)**	(578)	**(368)**	(578)	(1,286)
Interest paid	**(204)**	(199)	**(199)**	(177)	(415)
Payment to Eurocom DBS for acquisition of shares and DBS loan	**-**	(61)	**-**	-	(61)
Miscellaneous	**(7)**	(7)	**(4)**	(5)	(12)
Net cash from (used in) financing activities	**(662)**	(296)	**(849)**	13	(844)
Increase (decrease) in cash and cash equivalents, net	**(1,258)**	1,206	**(903)**	1,062	1,533
Cash and cash equivalents at beginning of period	**2,181**	648	**1,826**	792	648
Cash and cash equivalents at end of period	**923**	1,854	**923**	1,854	2,181

"Bezeq" The Israel Telecommunication Corp., Limited
Other Operating Expenses (Income), Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Provision for early retirement of employees	**93**	12	**81**	12	23
Capital gains (mainly from disposal of real estate)	**(6)**	(19)	**(5)**	(13)	(66)
Others	**20**	2	**8**	-	24
Loss from impairment of goodwill	**-**	-	**-**	-	87
Total operating expenses (income), net	**107**	(5)	**84**	(1)	68

"Bezeq" The Israel Telecommunication Corp., Limited

Effect of application of accounting standard IFRS 16

Effect on the condensed consolidated interim statement of financial position as at June 30, 2018

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Other receivables	345	**(57)**	**288**
Right-of-use assets	-	**1,424**	**1,424**
Trade and other payables	1,666	**(83)**	**1,583**
Current maturities of liabilities for leases	-	**417**	**417**
Long-term lease liabilities	-	**1,034**	**1,034**
Equity	2,258	**(1)**	**2,257**

Effect on the consolidated interim statement of income for the three months ended June 30, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	940	**(102)**	**838**
Depreciation and amortization	439	**98**	**537**
Operating profit	367	**4**	**371**
Financing expenses	105	**5**	**110**
Profit after financing expenses	262	**(1)**	**261**
Profit for the period	196	**(1)**	**195**

"Bezeq" The Israel Telecommunication Corp., Limited

Effect of application of accounting standard IFRS 16 (Cont'd)

Effect on the consolidated interim statement of cash flow for the three months ended June 30, 2018:

	in accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	717	**89**	**806**
Net cash used in investing activities	(867)	**7**	**(860)**
Net cash from financing activities	(753)	**(96)**	**(849)**