



BEZEQ
(TASE: BEZQ)

Investor Presentation

Forward-Looking Information and Statement

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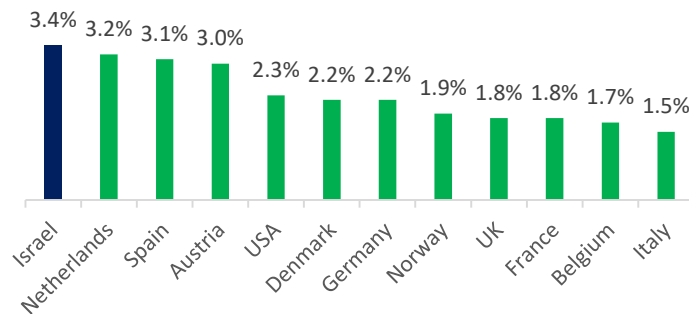
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The Israeli economy combines the advantages of developed markets and emerging economies



GDP Growth, 2017



Source : OECD, World Bank; Israel - Bank of Israel



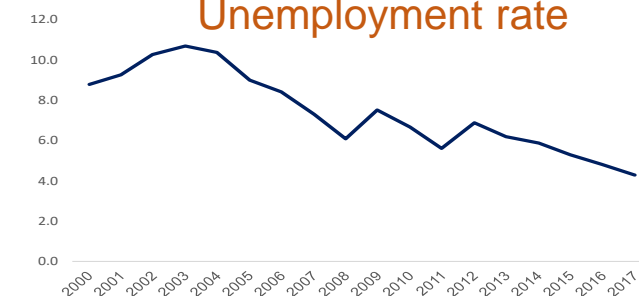
Inflation rate



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



Unemployment 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

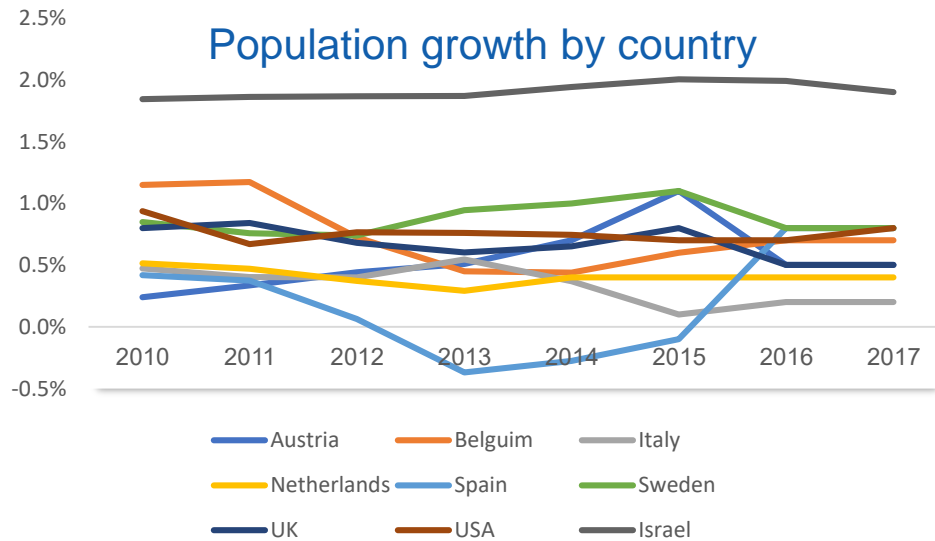
S&P raises Israel's credit rating to record AA-

Moody's affirms Israel's A1 credit rating, gives economy positive outlook

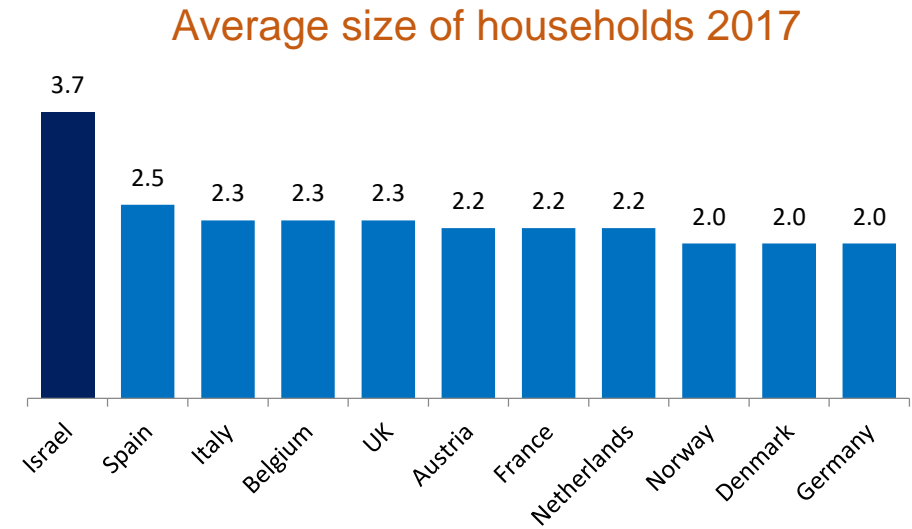


Israel Demographics

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



Source: OECD; Israel - Central Bureau of Statistics



Source: Eurostat; Israel - Central Bureau of Statistics



Bezeq group in numbers 2017

Revenues of NIS 9.8 billion



Strong financials

in terms of profitability, cash generation and capital structure



70%

of net income dividend distribution policy

587,000

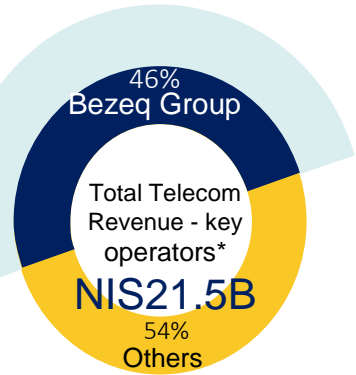
Pay-TV customers
(Market share: 37%)

1.6 million
broadband lines
(Market share: 70%)

2.5 million
cellular subscribers
(Market share: 23.3%*)

1.9 million
fixed access lines

(Market share telephony private sector: 53%,
Business sector: 72%)



* Includes revenues from Bezeq, Cellcom, Partner and Hot

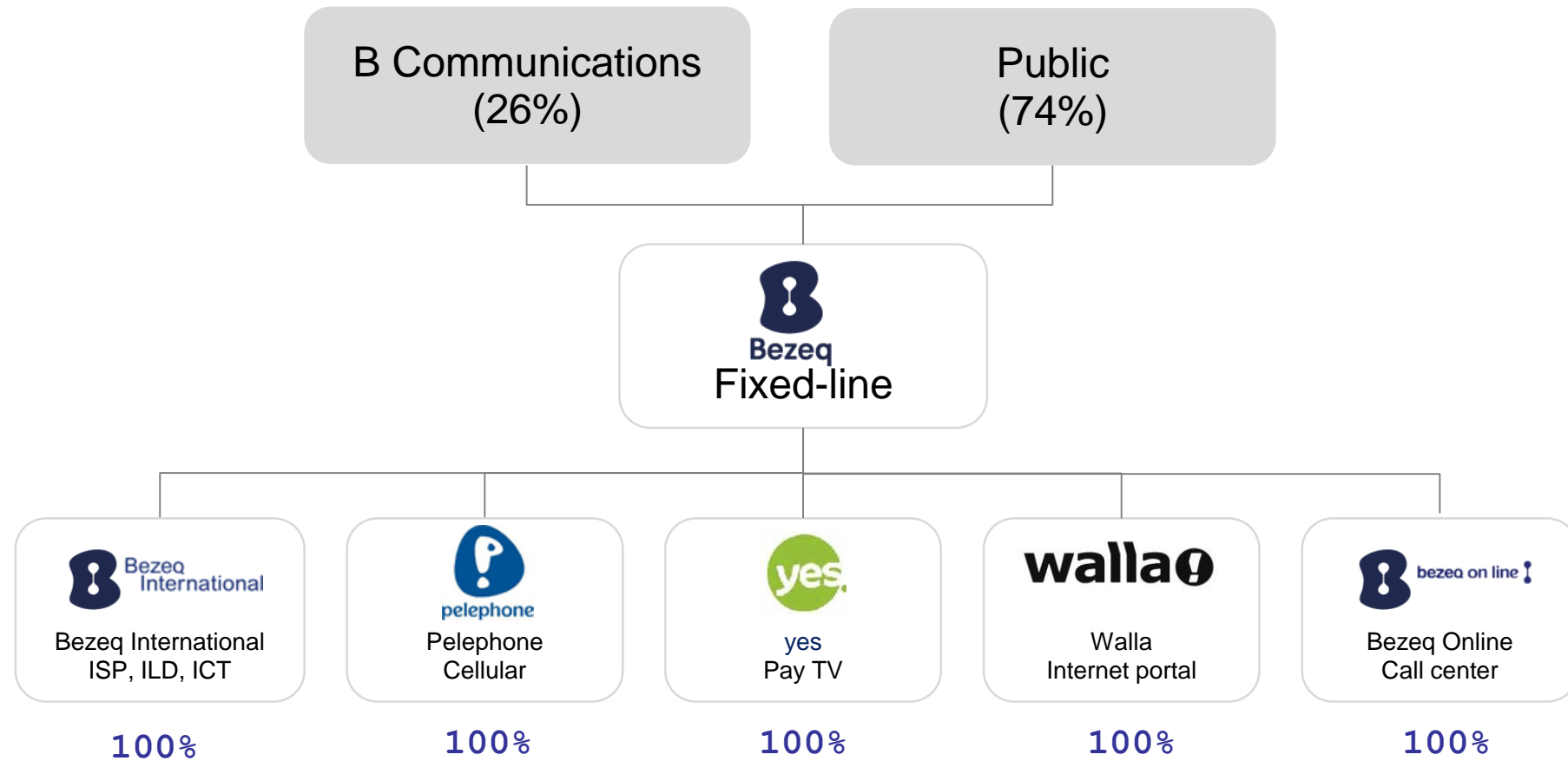
Diversified portfolio in all TMT sub-markets



* Cellular Market share data as of 9/2017

Bezeq Group

Wide diversification of advanced telecom services



Opportunities & Challenges

- **Improved Corporate Governance**

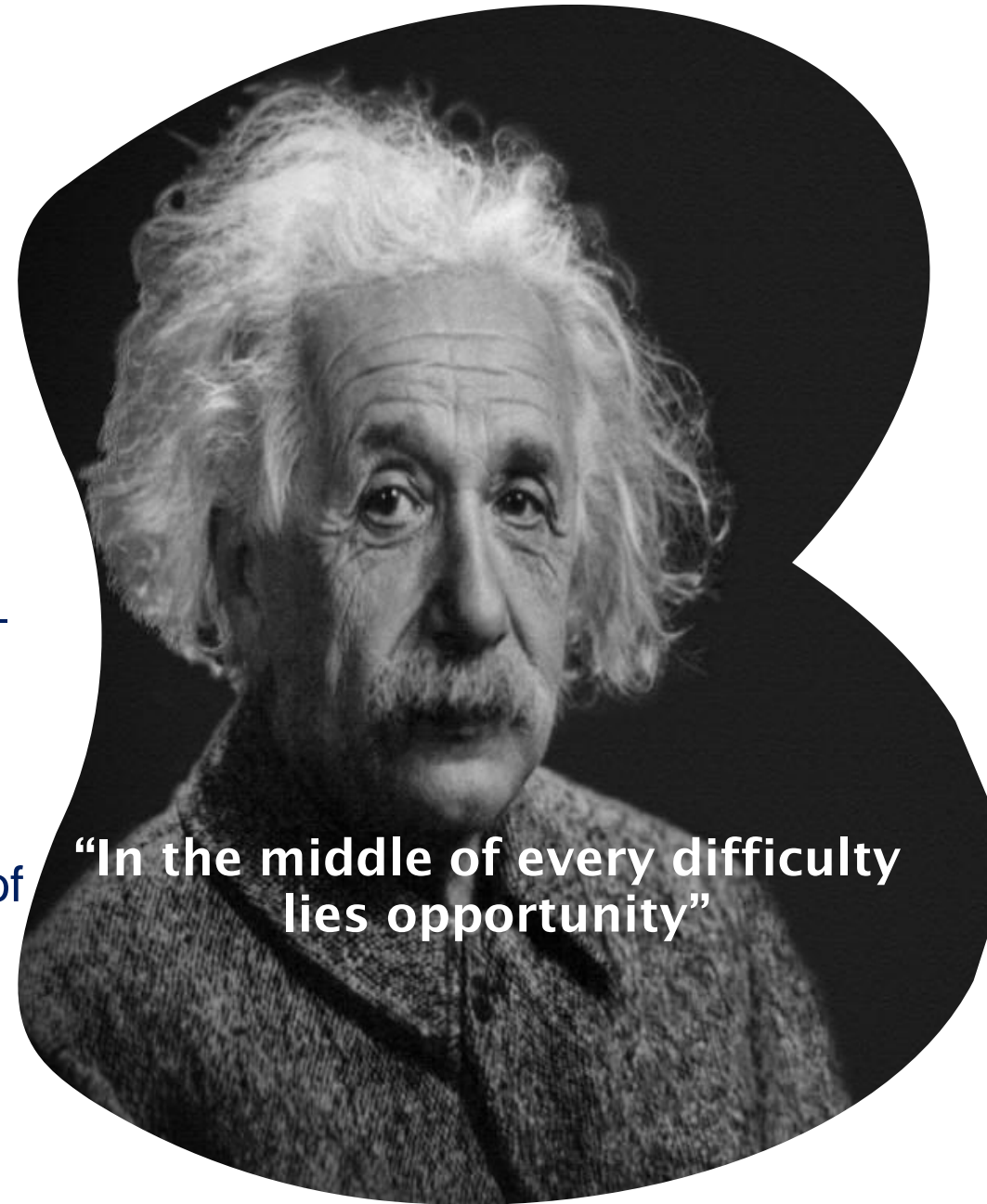
- New Board with mix of experience, **independence** and **integrity** to effectively govern the Company in the interest of all shareholders

- **Strategic review of Group operations**

- Maximizing **synergies** between subsidiary companies –
 - Application submitted for single limited partnership
 - Negotiations with labor unions
 - Changes in senior management team and sharing of management resources

- **Streamlining** initiatives at Bezeq Fixed-Line

- **Sale of none-core assets** (Bezeq Online, Walla! News)



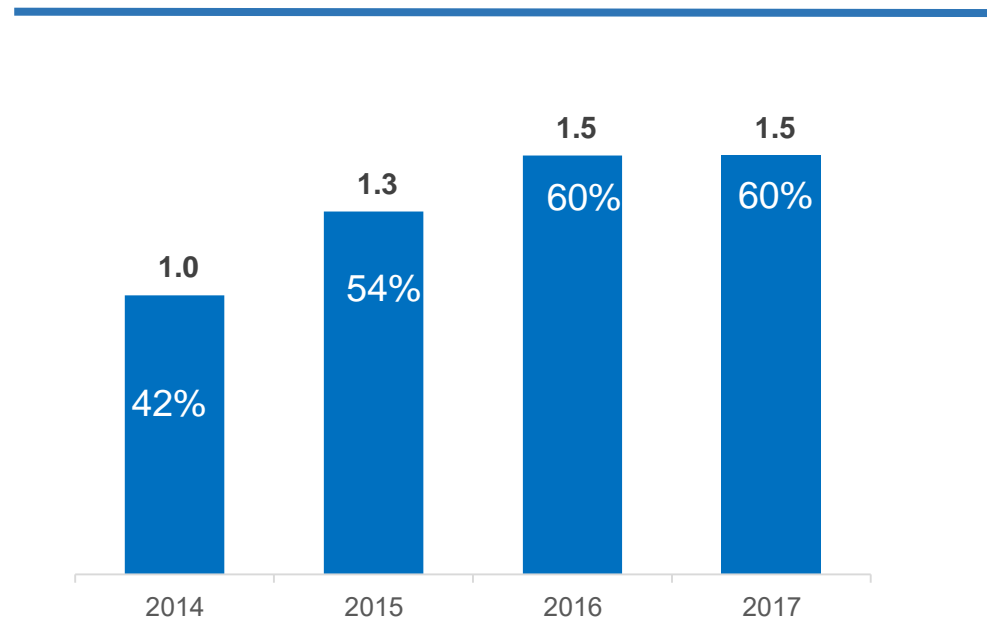


Bezeq Fixed-Line

State-of-the-art fixed-line infrastructure

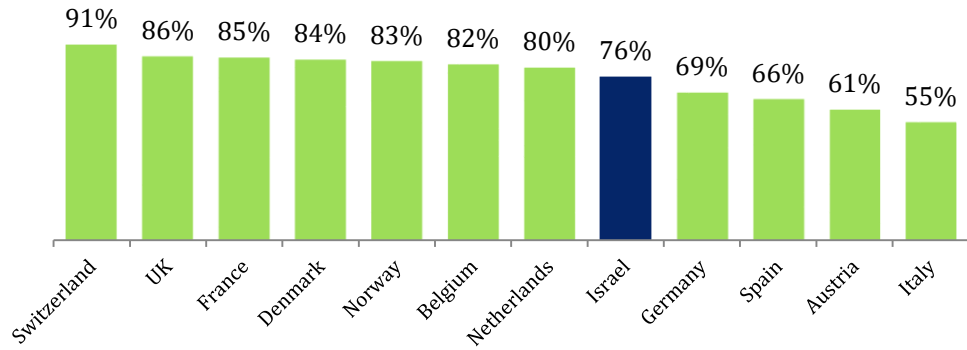
- Fully owned, newly built and ducted network provides Bezeq with a competitive edge
- NGN FTTC network that supports high bandwidth speeds (up to 100 mbps) deployed on a nation-wide basis
- Launched in 2013, Fiber (FTTH/B) covers approximately 1.5 million or 60% of households and businesses in Israel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

Fiber (FTTH/B) Homes Passed
(Million, % of households)



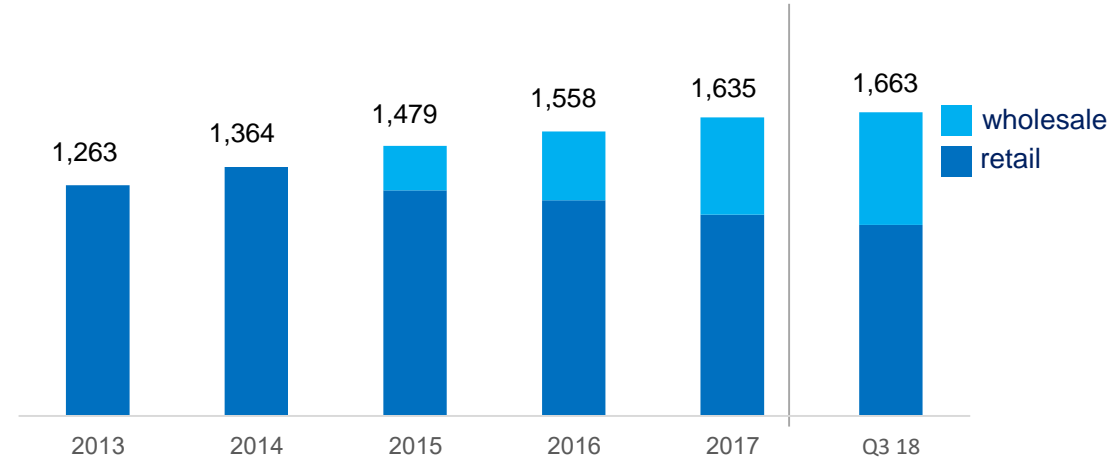
Broadband Market – Growing broadband market and increasing market share together with steady ARPU

Broadband penetration – still room to grow

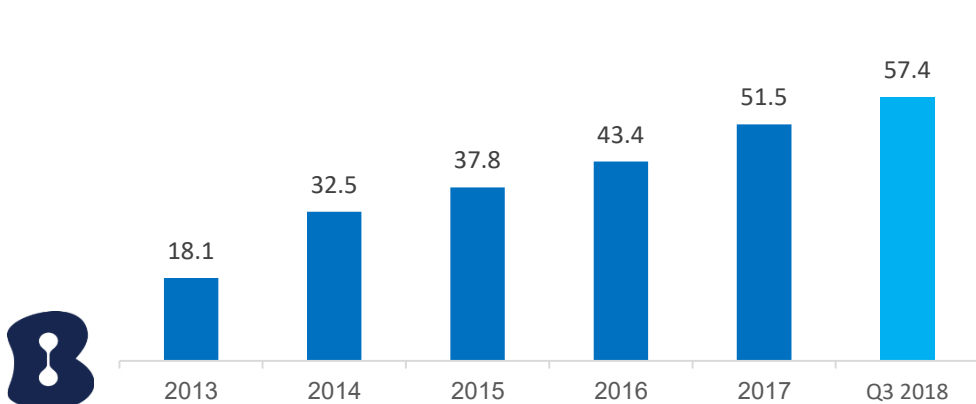


Source: Analysys Mason;; Bezeq - Company estimates

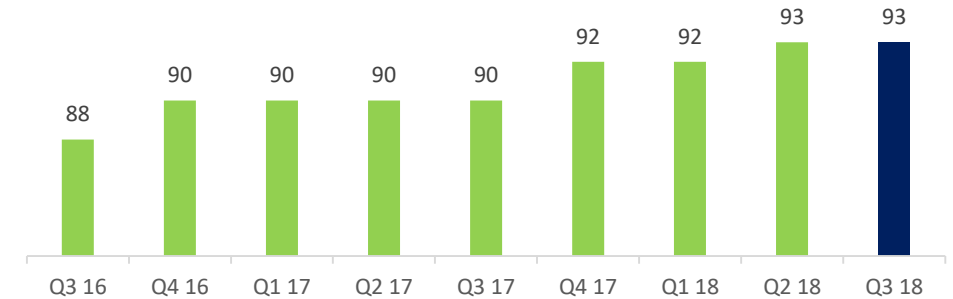
Bezeq broadband - steady increase in subscribers (in thousands, % market share infrastructure)



Average broadband speed per subscriber (Mbps)



Broadband Internet ARPU (in NIS) - Retail

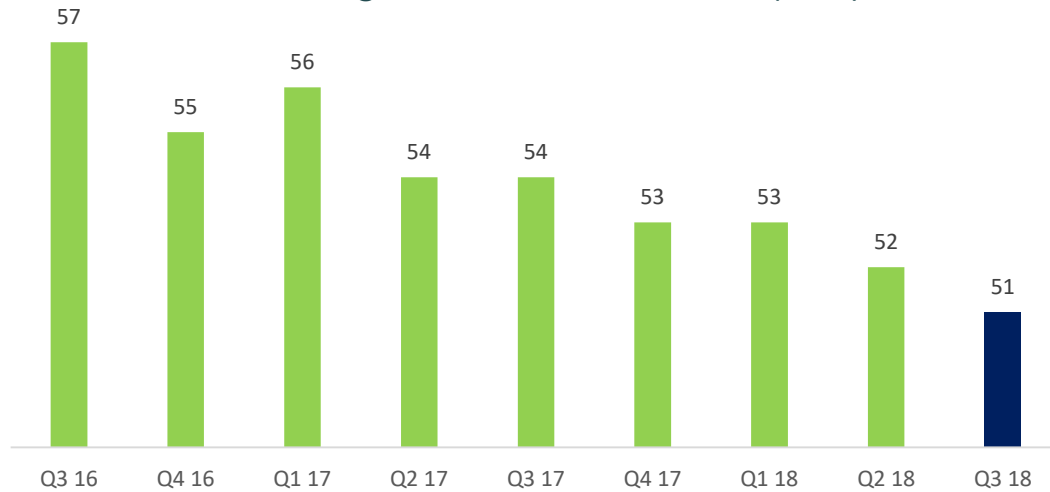


Fixed Line Telephony

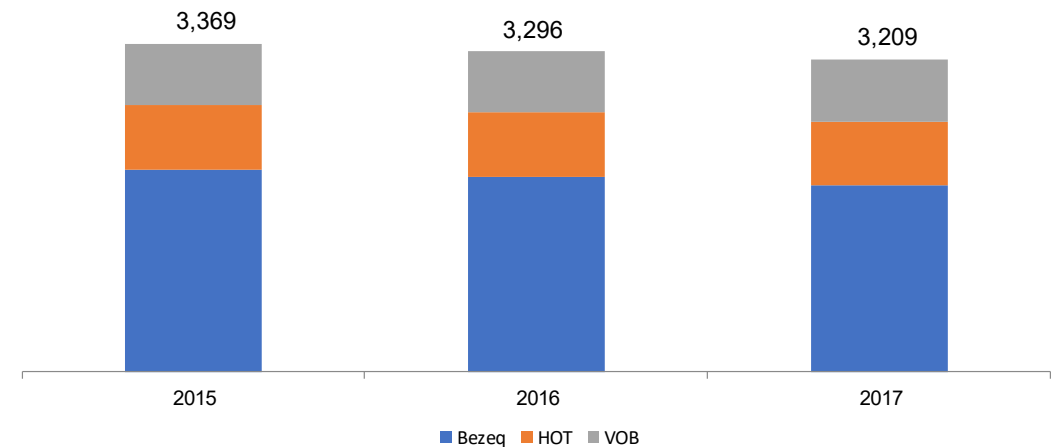
Moderate line erosion and nearly stable ARPL driven by demographics and geographic region



Average Revenue Per Line (NIS)



Total voice market remains stable



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



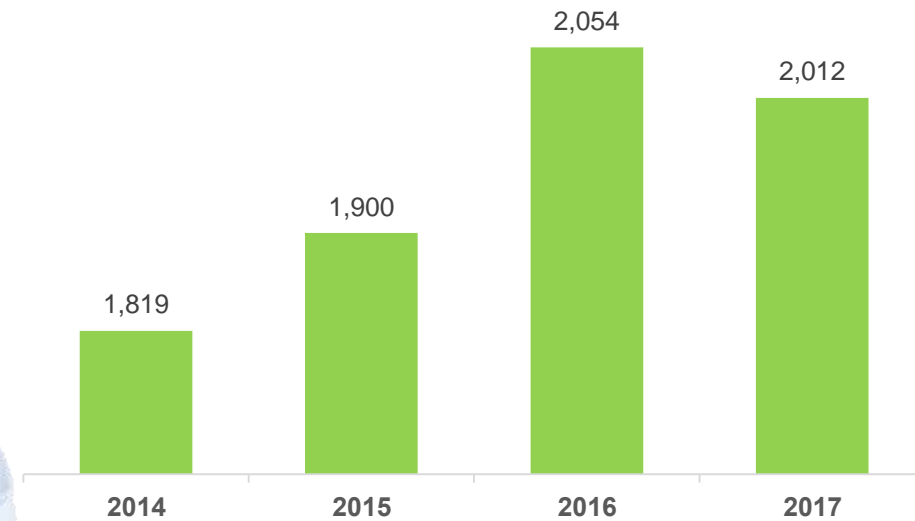
Smart business



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

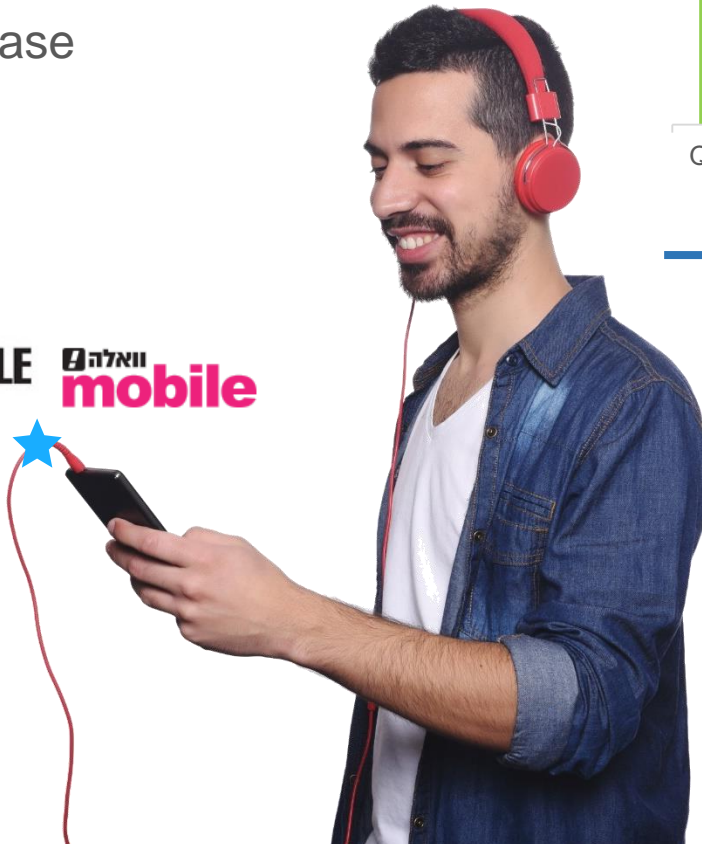


- Exclusive, wholly owned network enables full flexibility and control over future technology roadmap
- First to begin deployment of unique technologies for spectrum optimization (Beam forming, MIMO 4x4) - up to 50% improvement in speeds where deployed
- MOC approval to begin deployment of LTE Advanced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

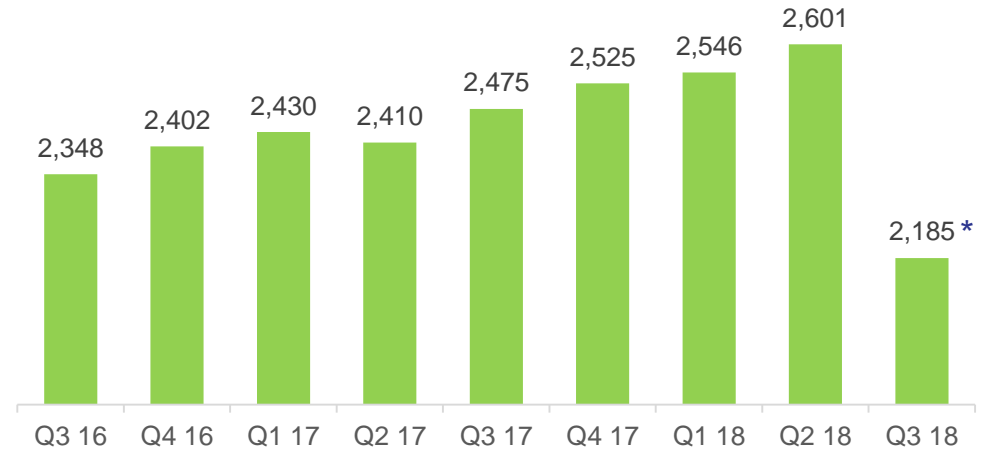


Segmented marketing strategy and best in class sales distribution

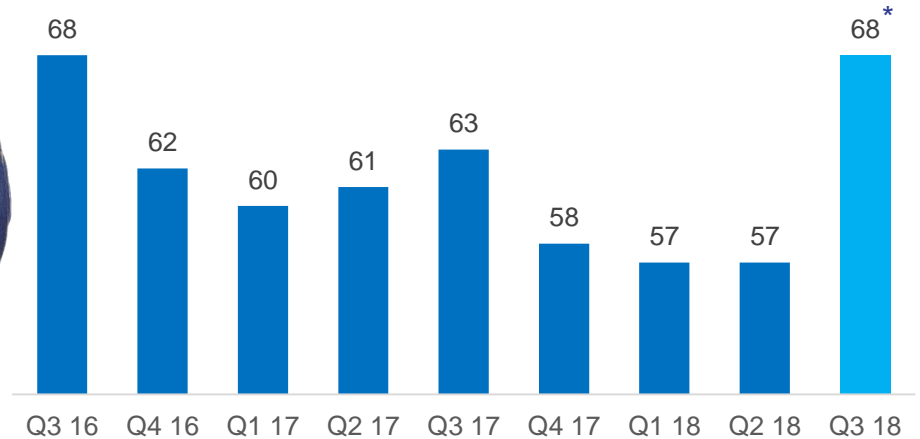
- Multi brand strategy to support subscriber growth and manage cannibalization
- Most extensive points-of- presence in Israel – mainly in retail chains – from 50 in 2016 to over 600 in 2018
- Constantly growing customer base



Telephone subscriber change



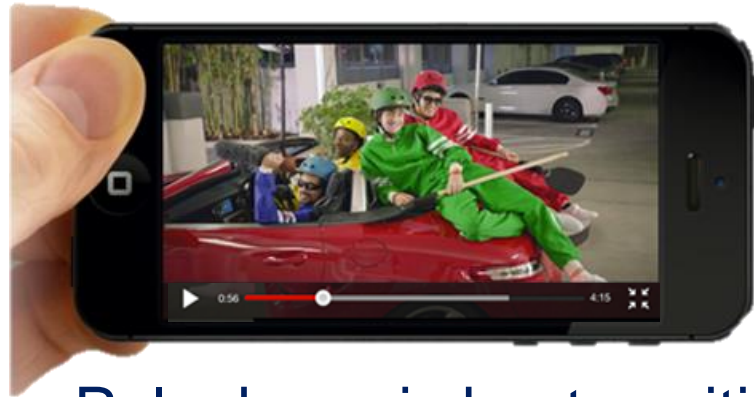
Telephone ARPU (NIS)



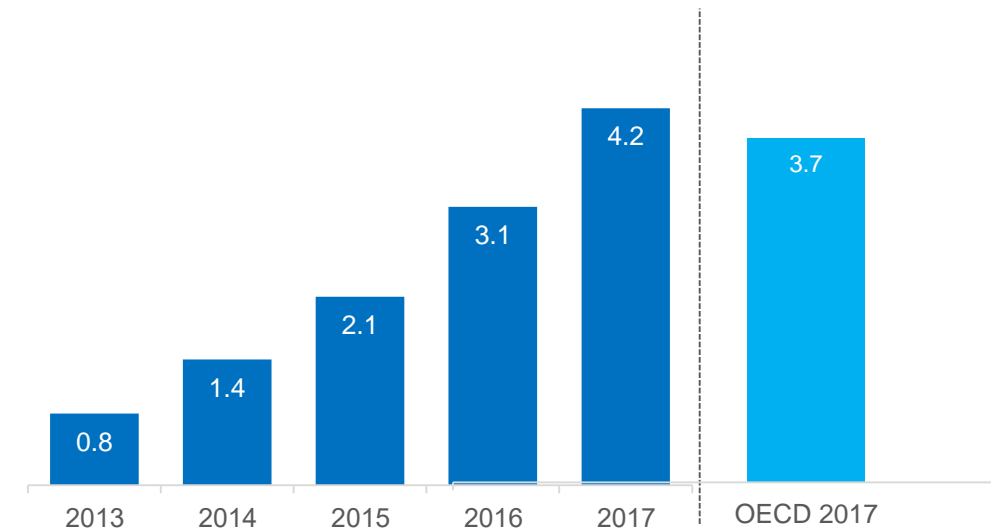
*Includes removal of 426k prepaid and 2,000 IOT subscribers 16 in Q3 18 leading to NIS 11 increase in ARPU

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)



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

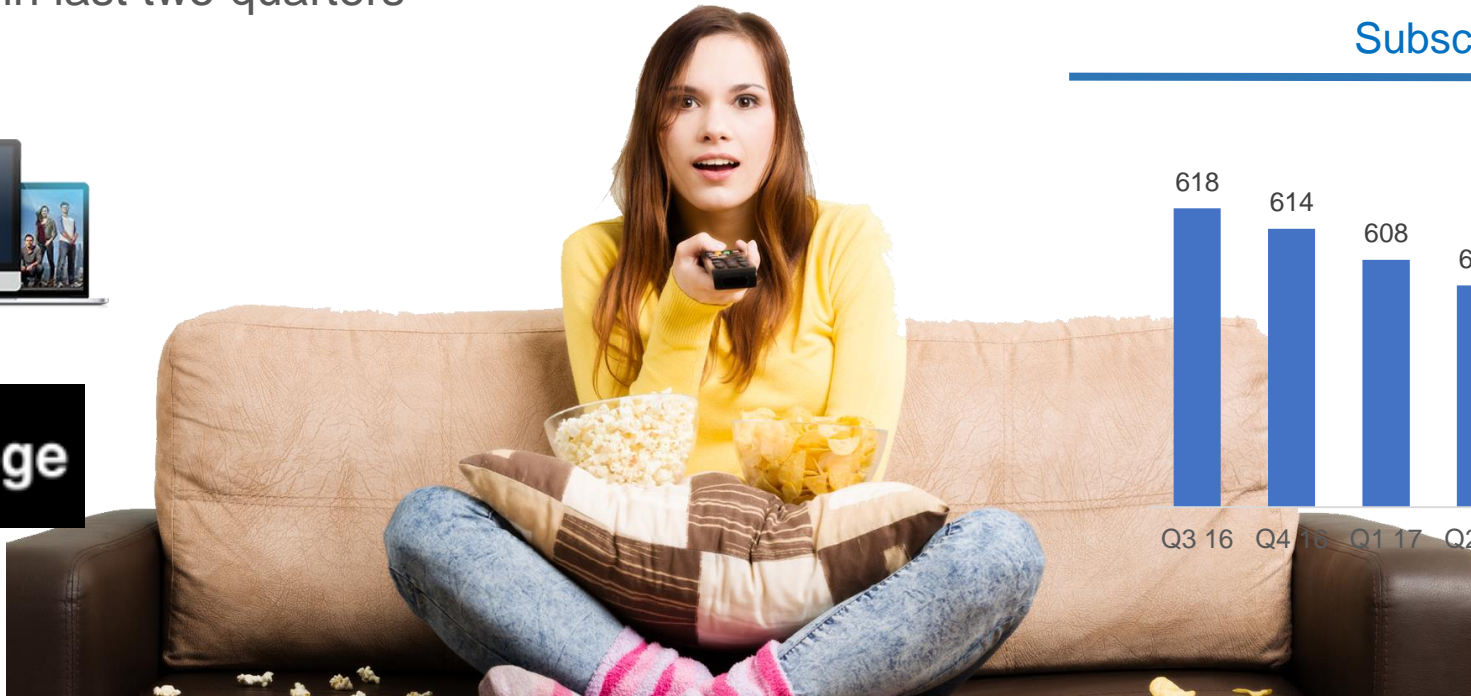


Best Content

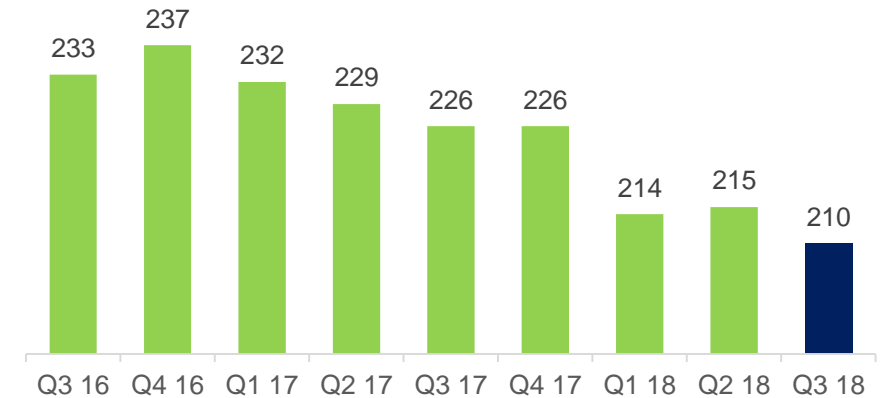


yes – Best in class

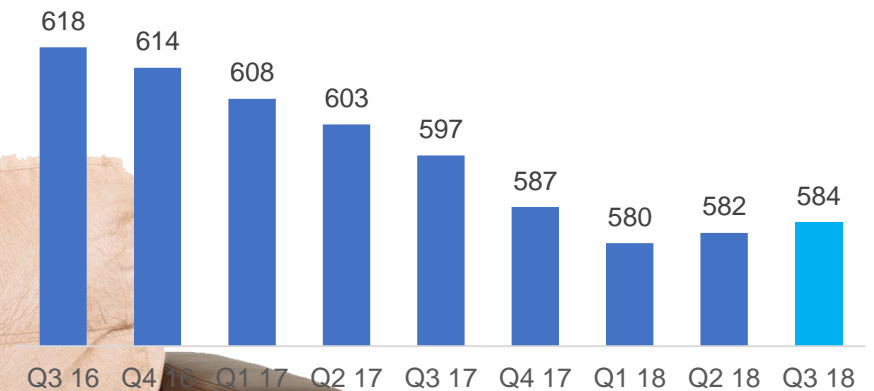
- Rich and highly valued local and international programming
- Innovative technologies (4K content, multi-room access to main PVR, TV everywhere, etc...)
- Best customer service in the pay TV market
- Attractive new price plans led to increase in subscribers in last two quarters



ARPU (NIS)



Subscribers (in 000's)

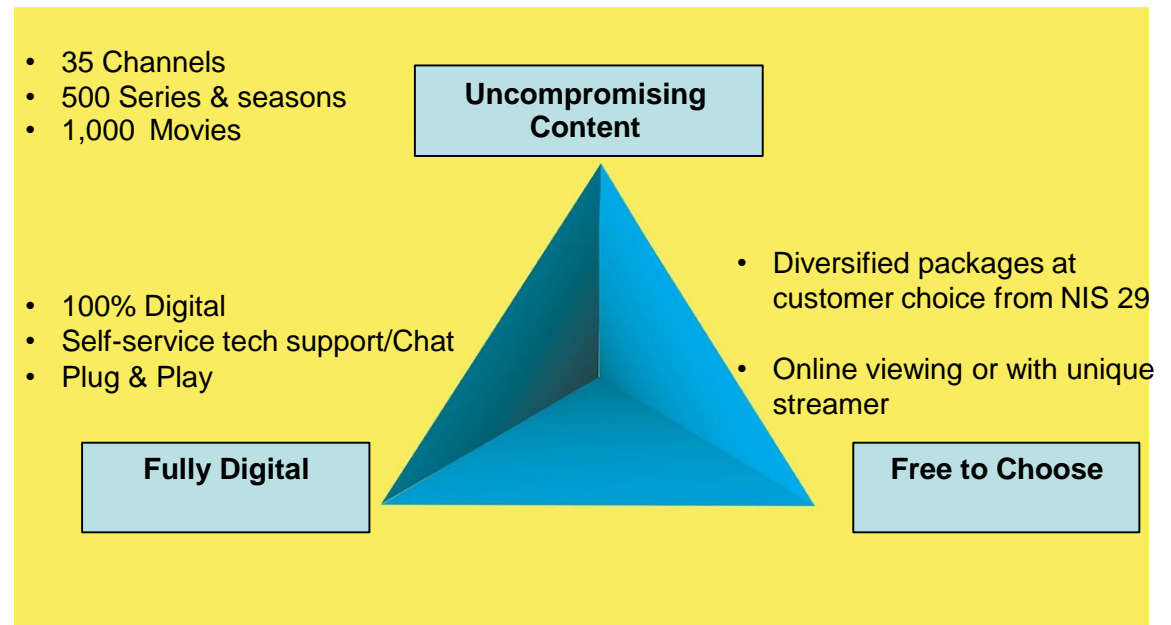


STINGTV

STING TV Launch OTT Service for new market segment



Innovative & High Quality Service based on 3 Key Principles



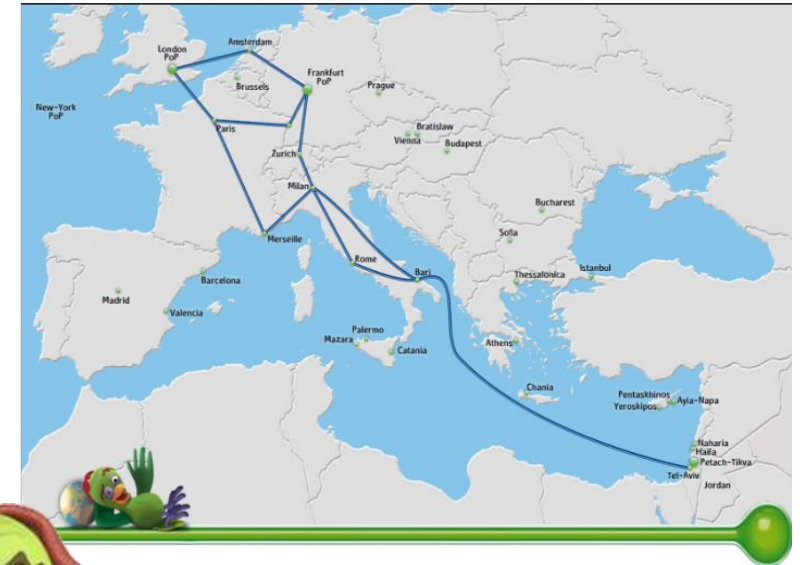


Bezeq International

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



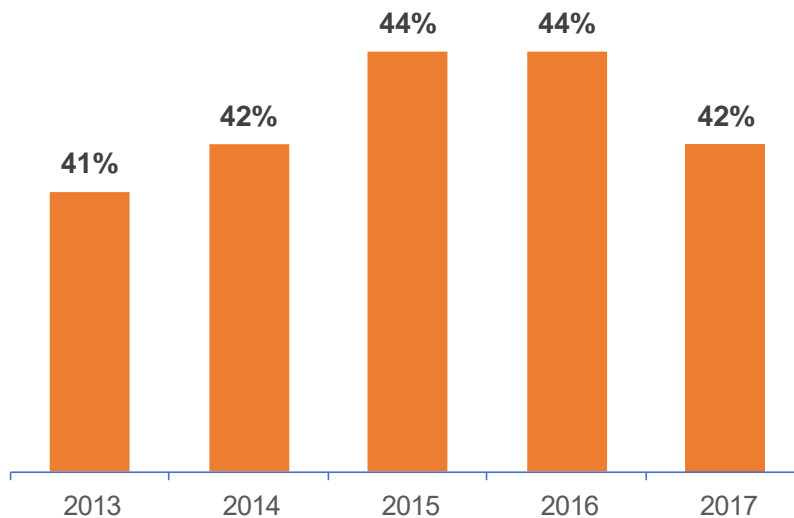
- Leading broadband Internet service provider among dozens of players in Israel
- 42% Internet market share
- Cutting-edge infrastructure
- Customized service plans
- Advanced IP services

ICT

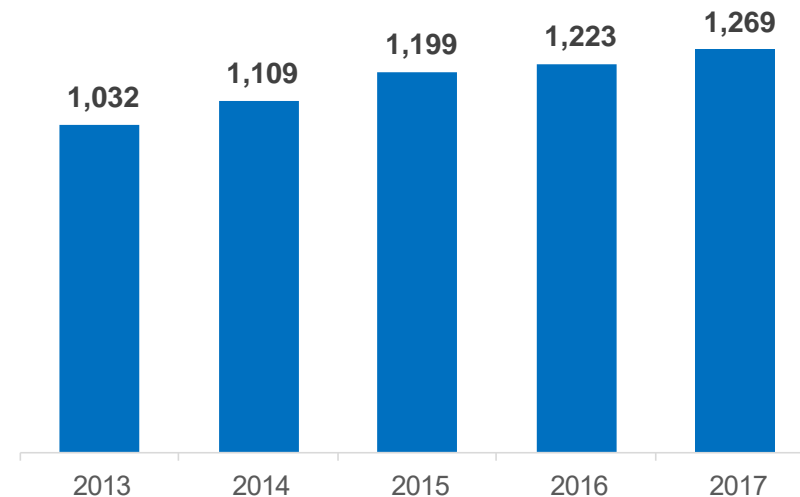


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International Broadband Market Share



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

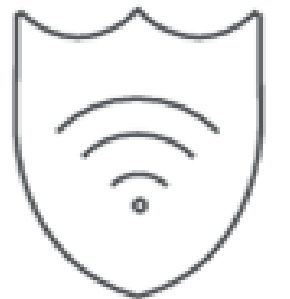


The future



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, etc...



CYBER WALL



Bhome



smart business



smart city

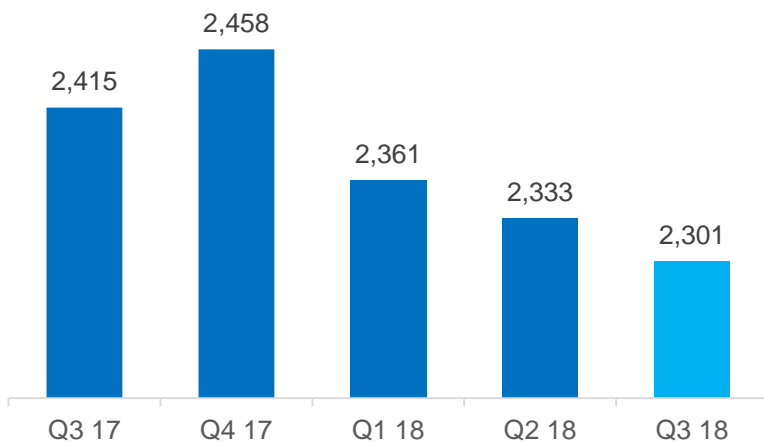


Big Data

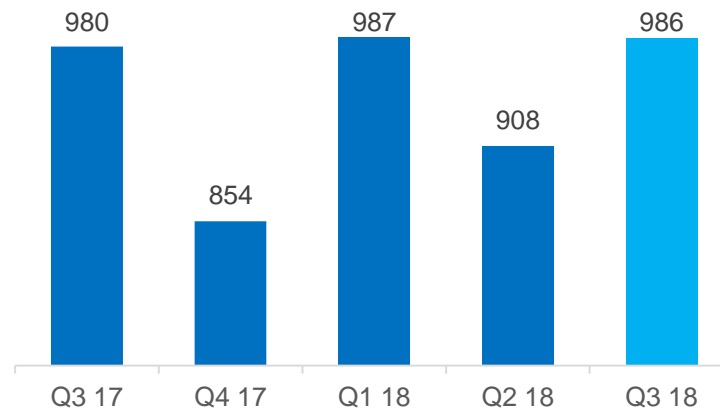


Bezeq Group – Financials

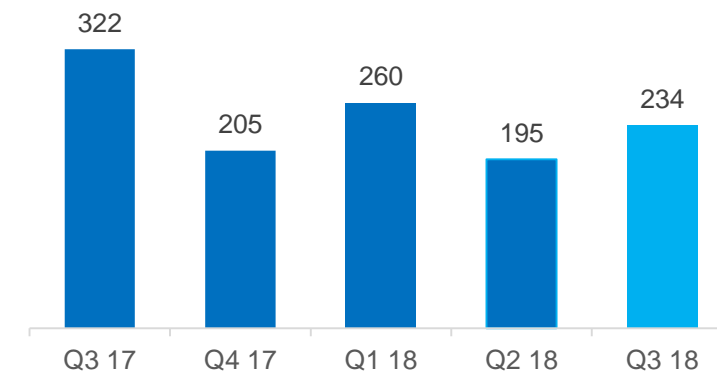
Consolidated Revenue (NIS Millions)



Consolidated EBITDA** (NIS Millions)

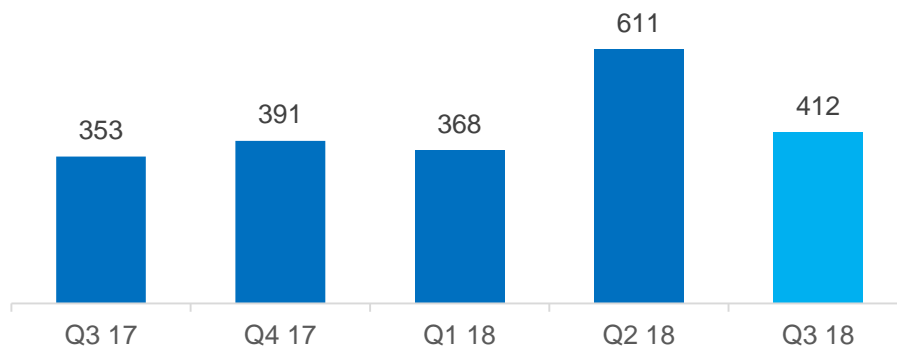


Consolidated Net Profit** (NIS Millions)

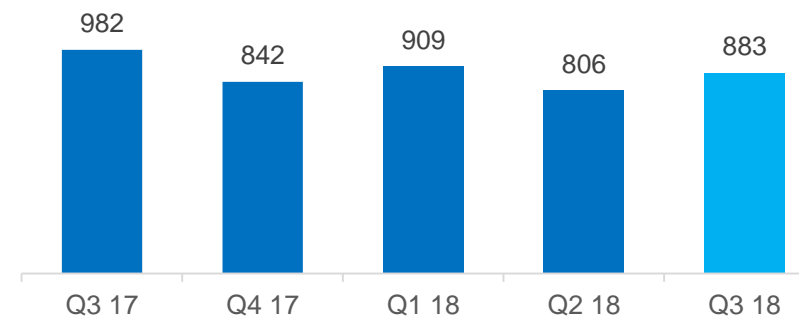


** Q2 2018 EBITDA and net profit includes NIS 80m provision for early retirement

Consolidated CapEx* (NIS Millions)



Operating Cash Flow (NIS Millions)



*Q2 2018 capex includes payments of NIS 192m for permit fees and taxes relating to the sale of "Sakia"



Bezeq Group – 2018 Guidance

Unchanged as at the date of publication of the Q3 2018 reports

Net profit :

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 from 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.

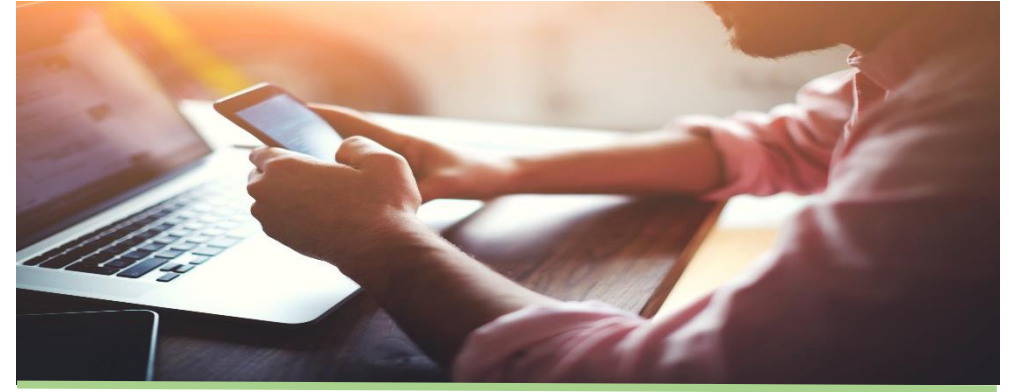
The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations, including that the forecasts do not include the effects of the provision for early retirement of employees and/or the signing of collective labor agreements in the Group and cancellation of the Group's structural separation, including the effects of the merger 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 which 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.

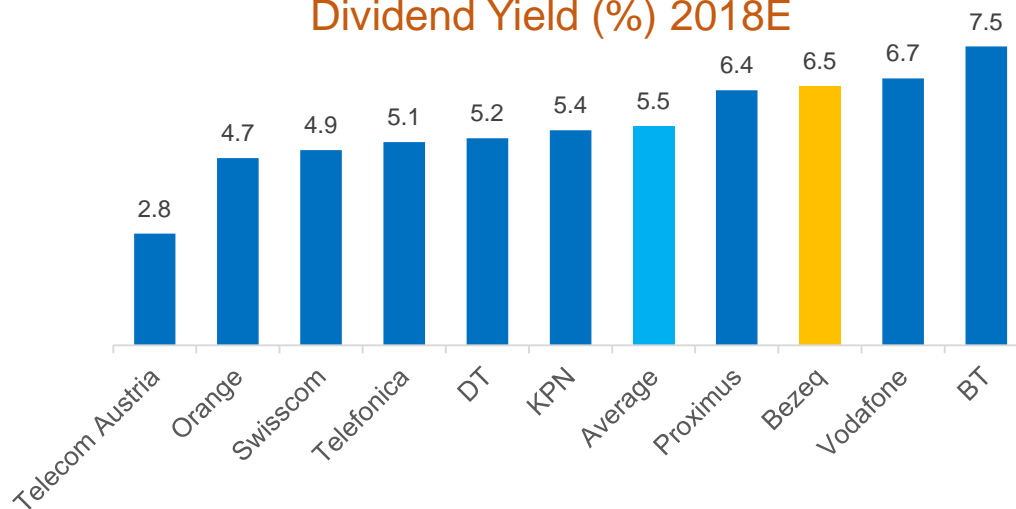


Attractive Dividend Policy

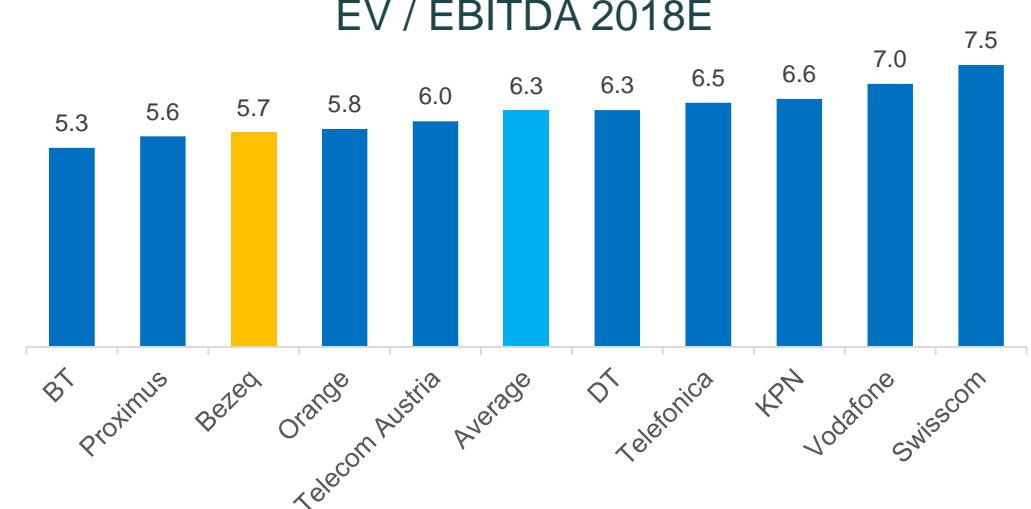
- Board of Directors approved dividend policy – 70% of net income on a semi-annual basis



Dividend Yield (%) 2018E



EV / EBITDA 2018E



Source: Barclays; Bezeq: based on share price of NIS 3.9

Source: Citi; Bezeq: based on share price of NIS 3.9

Bezeq – Key Take Aways



- Strong country economic growth
- State of the art infrastructure and high quality of service
- Regulatory limitations regarding structural separation
- Attractive dividend yield and valuation
- 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>

