



BEZEQ
(TASE: BEZQ)

Investor Presentation
Q2 2016 Results

Forward-Looking Information and Statement

This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunications Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management’s expectations about new and existing programs, opportunities, technology and market conditions. Although Bezeq believes its expectations are based on reasonable assumptions, these statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. In addition, the realization and/or otherwise of the forward looking information will be affected by factors that cannot be assessed in advance, and which are not within the control of Bezeq, including the risk factors that are characteristic of its operations, developments in the general environment, external factors, and the regulation that affects Bezeq’s operations.

Key Data

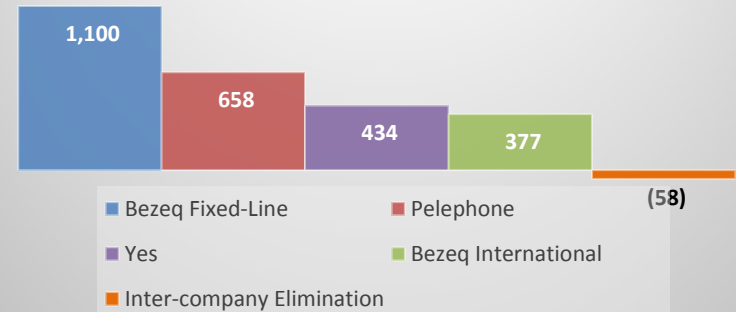


BEZEQ

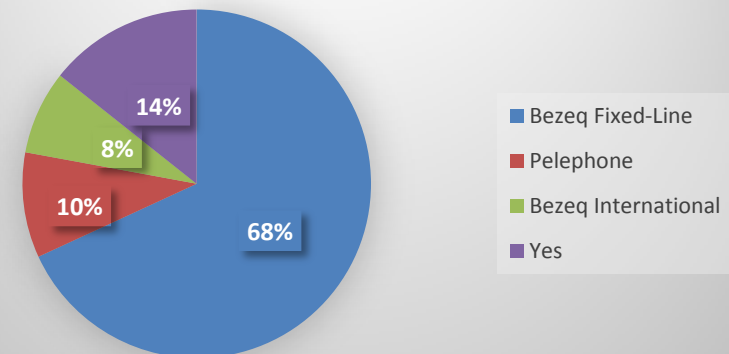
The largest provider of telecommunications services in Israel

- LTM Revenue: NIS 10.3 billion
- Diversified portfolio in all TMT sub-markets
 - 2.15 million fixed customer lines
 - 2.26 million cellular customer lines
 - 1.52 million broadband lines
 - 623,000 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
- 2016 semi-annual dividend of NIS 776 million paid in May 2016

Group Revenues - Q2 2016
(Total Revenues of NIS 2.511B)



Contribution to Group EBITDA - Q2 2016



The Bezeq Advantage



Strong market positions in all telecom sectors

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



Advanced nationwide infrastructure

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



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

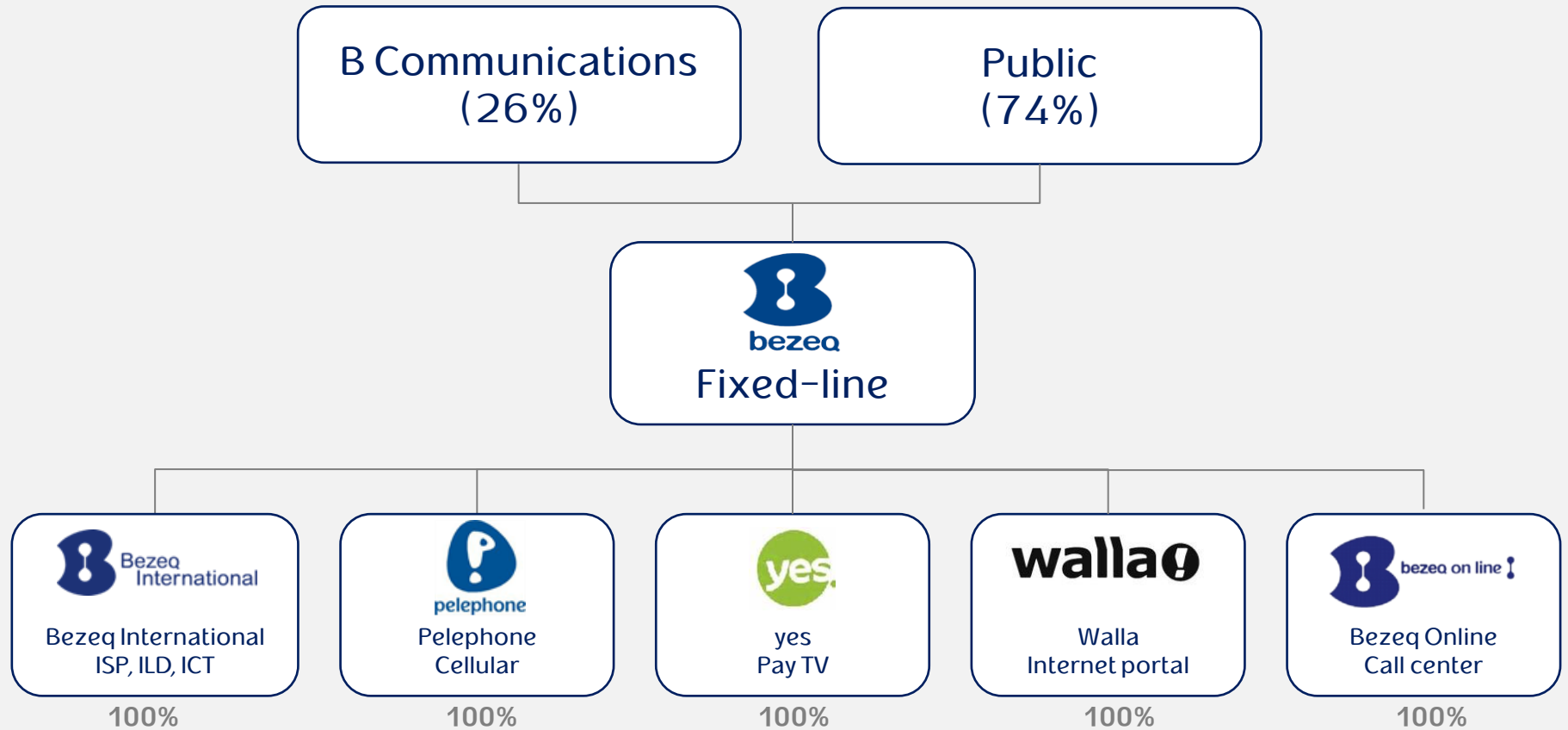
- Well balanced capital structure
- Deregulation policy offers future upside



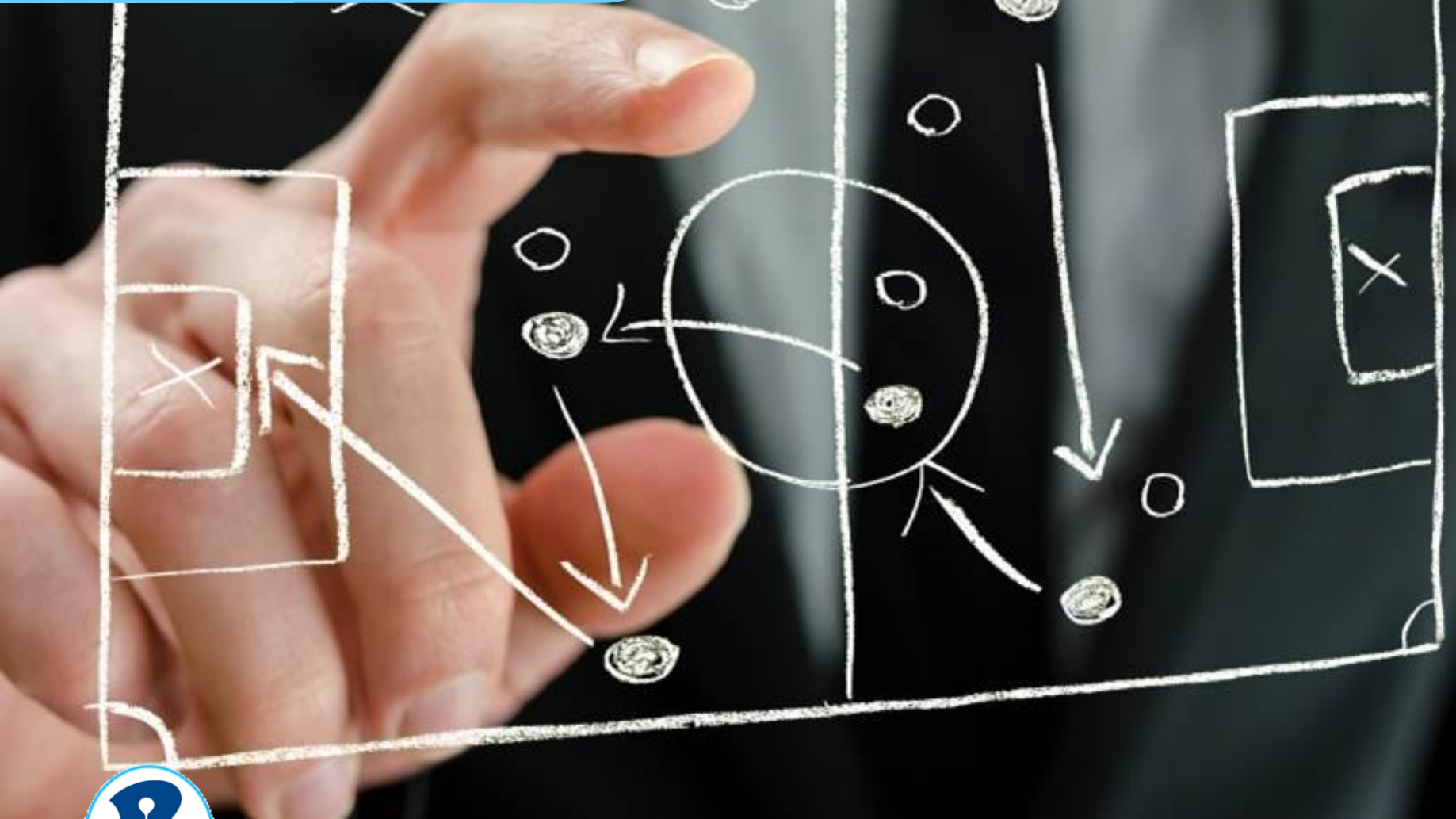
Capable, stable and experienced management team

Bezeq Group































Wide diversification of advanced telecom services



Competitive Environment



Israeli Telecom Market

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



Investments in Advanced Infrastructure

Fixed Line



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

Telephone

HIGH SPEED GSM+

HSPA/LTE

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

Bezeq International



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

Regulatory Opportunities & Challenges

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



Bezeq Group Financial Overview

Q2 2016 Key Highlights



Bezeq Fixed-line

- Stable revenues driven by growth in broadband Internet as well as transmission & data services
- Adjusted EBITDA and net income grew 1.4% and 13.2% respectively y-o-y, after excluding other operating income



Telephone

- Revenues and profitability metrics continued to be impacted by intense competitive environment
- Write-off of 499k CDMA subscribers impacted ARPU and churn



yes

- Stable revenues and EBITDA; FCF increased 116.7% y-o-y
- Stable ARPUs with 6k decrease in subscribers driven by increased competition and piracy sites

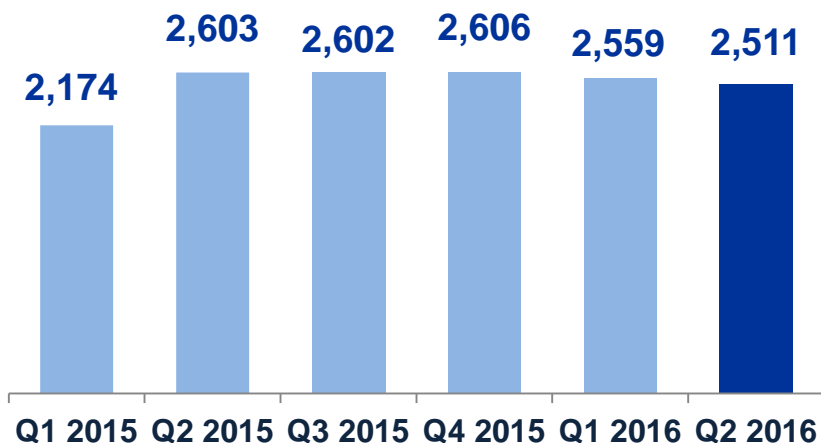


Bezeq International

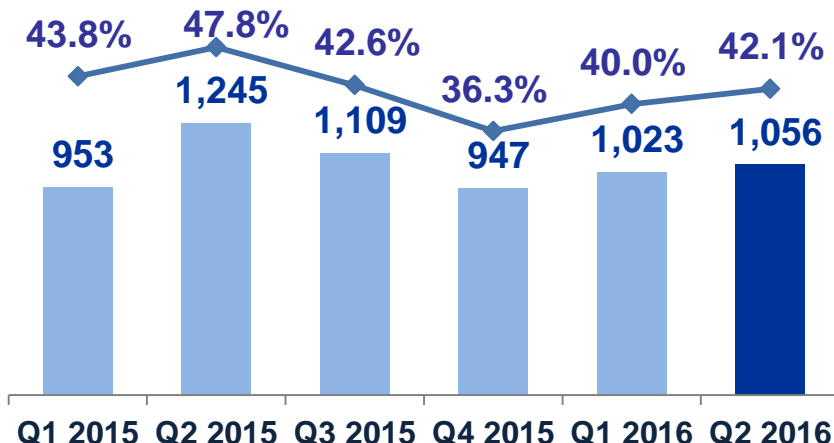
- Total revenues decreased 3.6% primarily due to a reduction in hubbing activities
- Profitability metrics impacted by implementation of collective labor agreement

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM



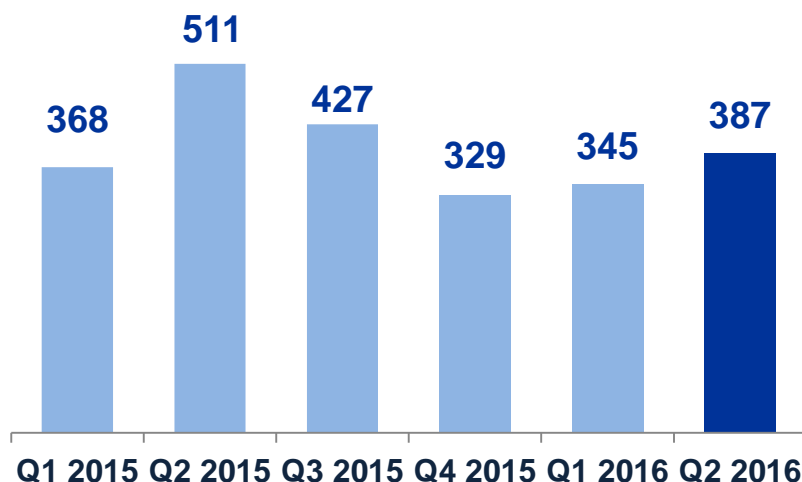
Consolidated EBITDA
NIS MM



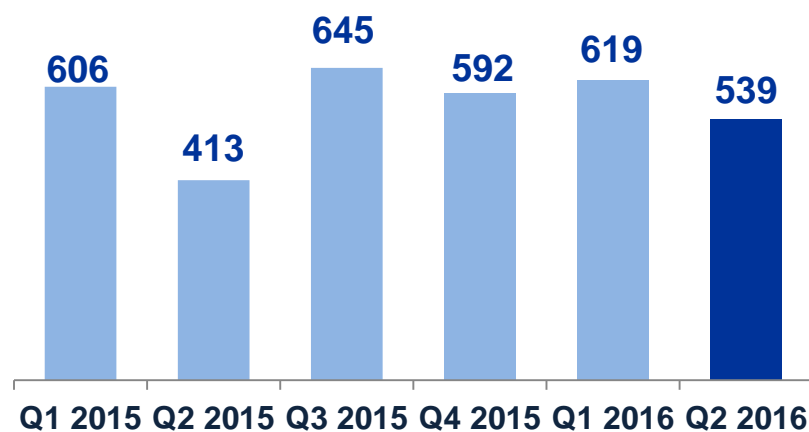
- Consolidated revenue in Q2 2016 decreased 3.5% y-o-y due to lower revenues in all of the group segments and primarily at Pelephone.
- Profitability metrics were impacted by the recording of NIS 148m of capital gains from the sale of fixed assets at Bezeq Fixed-line in the corresponding quarter of 2015.

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

- Capex decreased 24.3% in Q2 2016 primarily due to the payment of NIS 96 million by Pelephone for the LTE 4G frequencies in the corresponding quarter of 2015.
- Strong free cash flow generation in Q2 2016 of NIS 539m, representing a 30.5% increase y-o-y.

Bezeq Group – 2016 Guidance

Net profit attributable to shareholders:	Approximately NIS 1.4 billion
EBITDA:	Approximately NIS 4.2 billion
Free cash flow:	Approximately NIS 2.0 billion

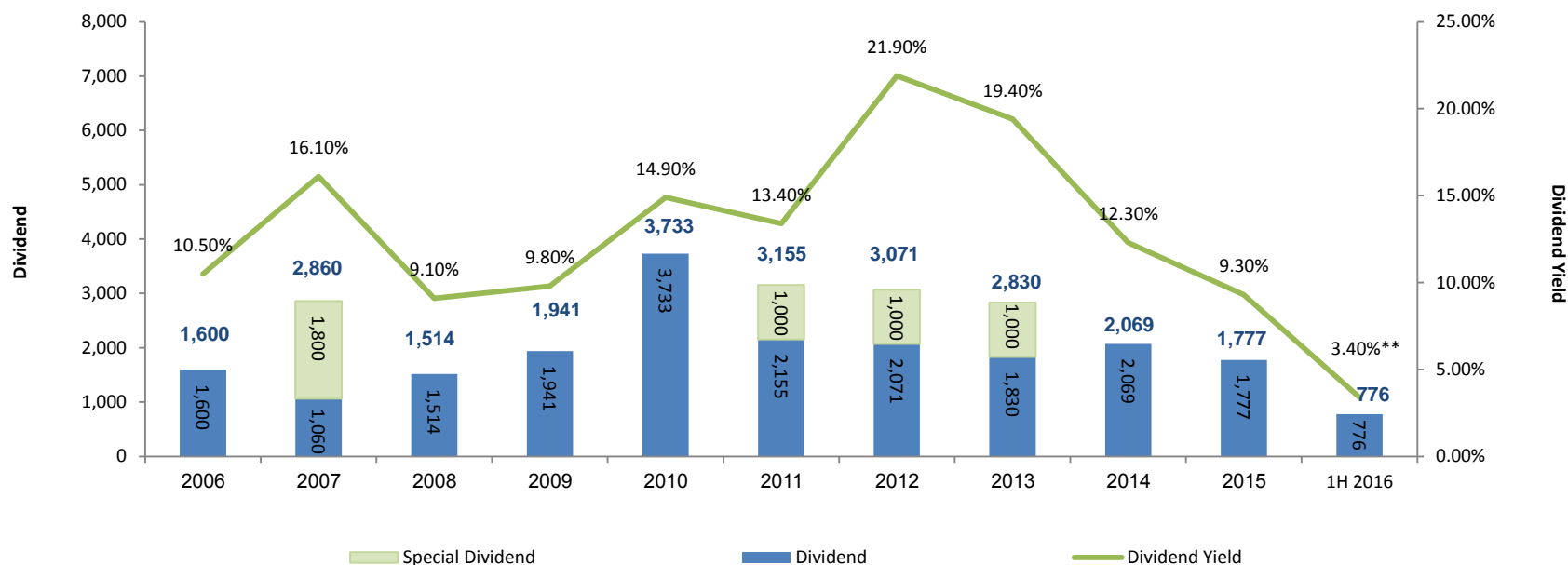
The Company's forecasts detailed above are forward-looking information, as defined in the Securities Law, and are based on assessments, assumptions and expectations of the Company, including the following:

The forecasts do not include the effects of a provision for the early retirement of employees and/or the signing of a collective labor agreement as may occur, nor the realization of Company rights in the real estate property "Sakia" or the cancellation of the Group's structural separation.

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

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)



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

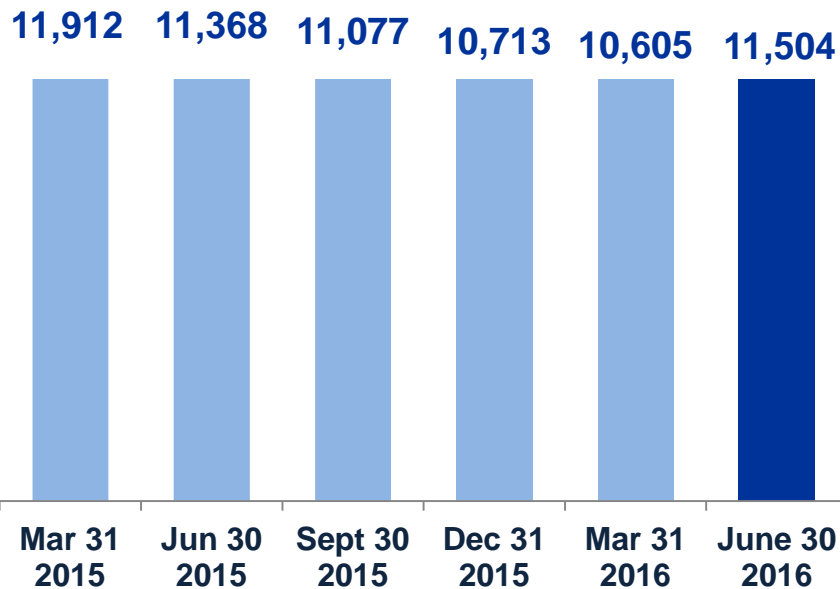
- Dividend Yield is based on average market cap during the period.

** Semi-annual dividend yield

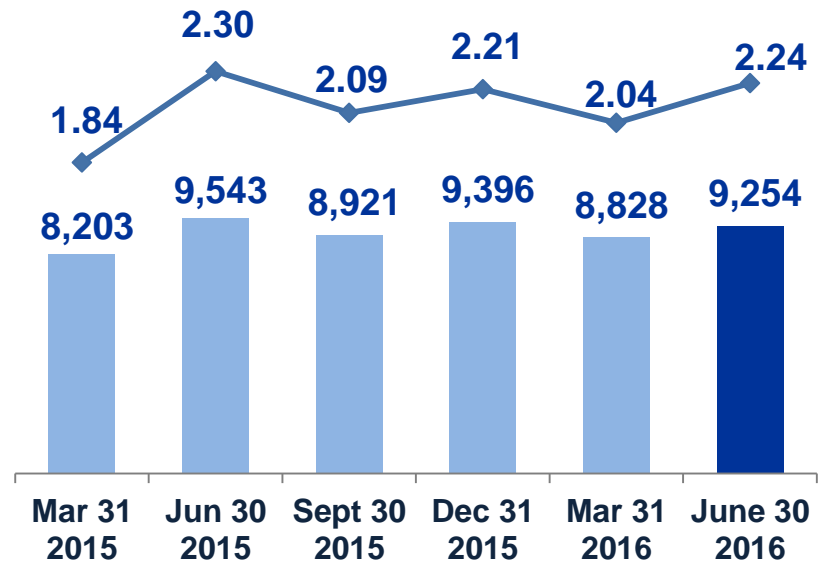
The Board of Directors recommended the distribution of 100% of net profits for the first half of 2016 as a cash dividend of NIS 665 million (approximately NIS 0.24 per share) to shareholders. The semi-annual dividend, which is subject to shareholder approval, would be payable on October 6, 2016. The ex-dividend date is September 20, 2016.

Bezeq Group – Debt*

Group Gross Debt (NIS MM)



Net Debt (NIS MM) — Net Debt / EBITDA



* Includes consolidation of yes as of March 31, 2015



Fixed Line

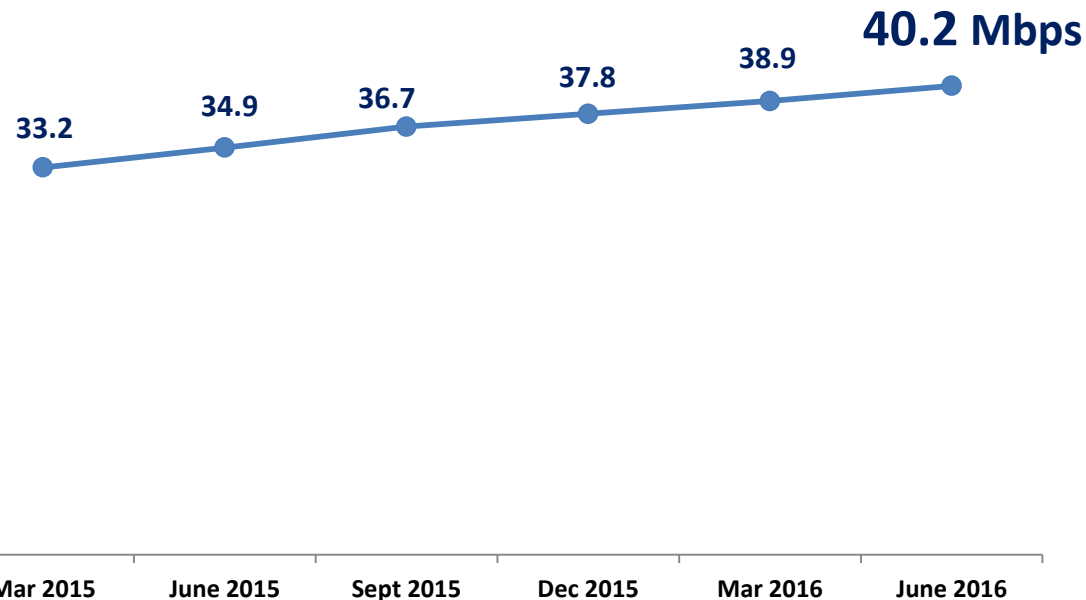
Bezeq Fixed-Line

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

- ✓ **Leading broadband provider in Israel with approximately 68% market share, growing by eight percentage points in the last three years**
- ✓ **More than 103k broadband customers added in last 12 months, representing an 7.3% increase y-o-y**
- ✓ **Broadband retail ARPU growth fueled by continuous bandwidth upgrades**
- ✓ **Leading provider of corporate telecom solutions in Israel**
- ✓ **Significant and stable business market share supported by differentiated offering**
- ✓ **Stabilizing trend in number of fixed access lines and ARPL**

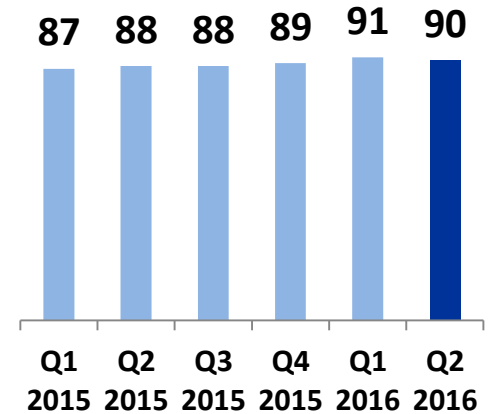
NGN enables ongoing increases in bandwidth and ARPU growth

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

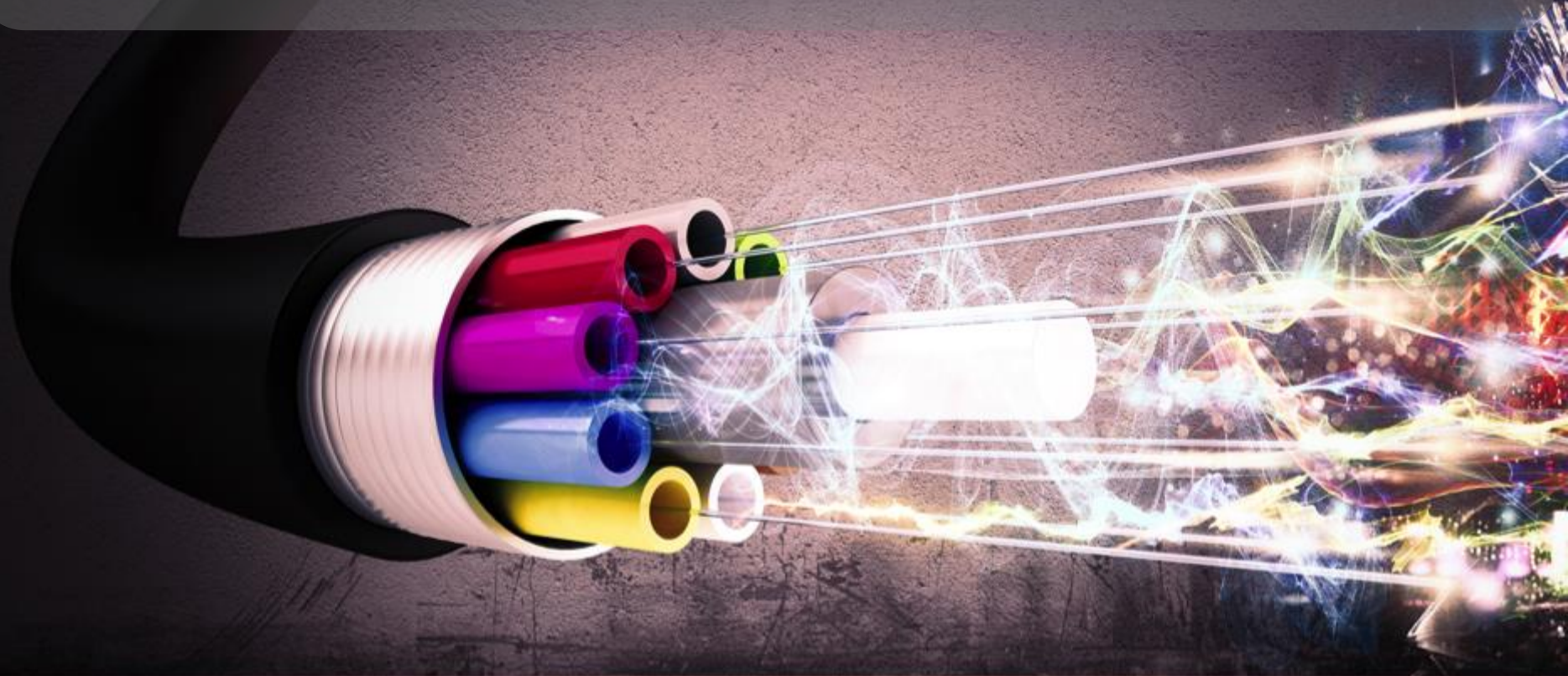


Megabits Per Second (Mbps)

Broadband Internet ARPU (NIS)



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

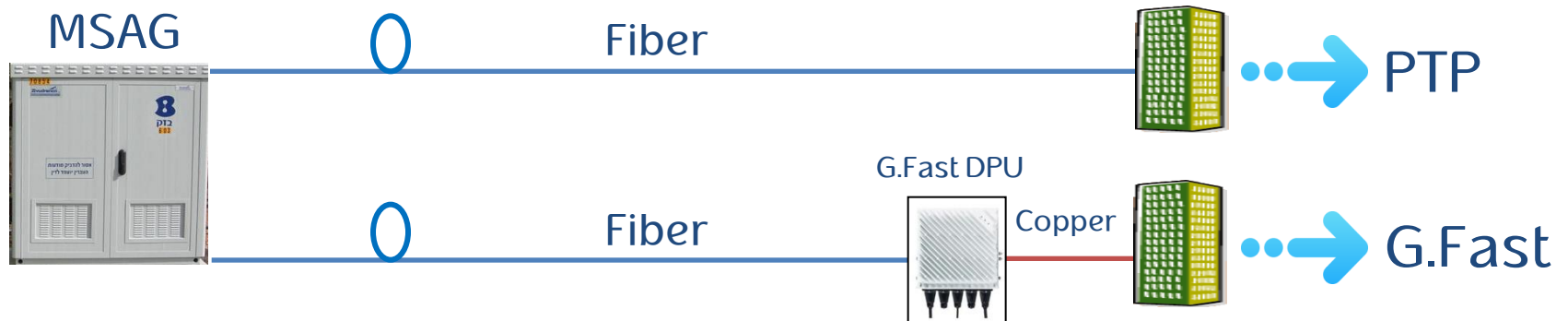


Technologies for the provision of ultra fast broadband and advanced Internet services

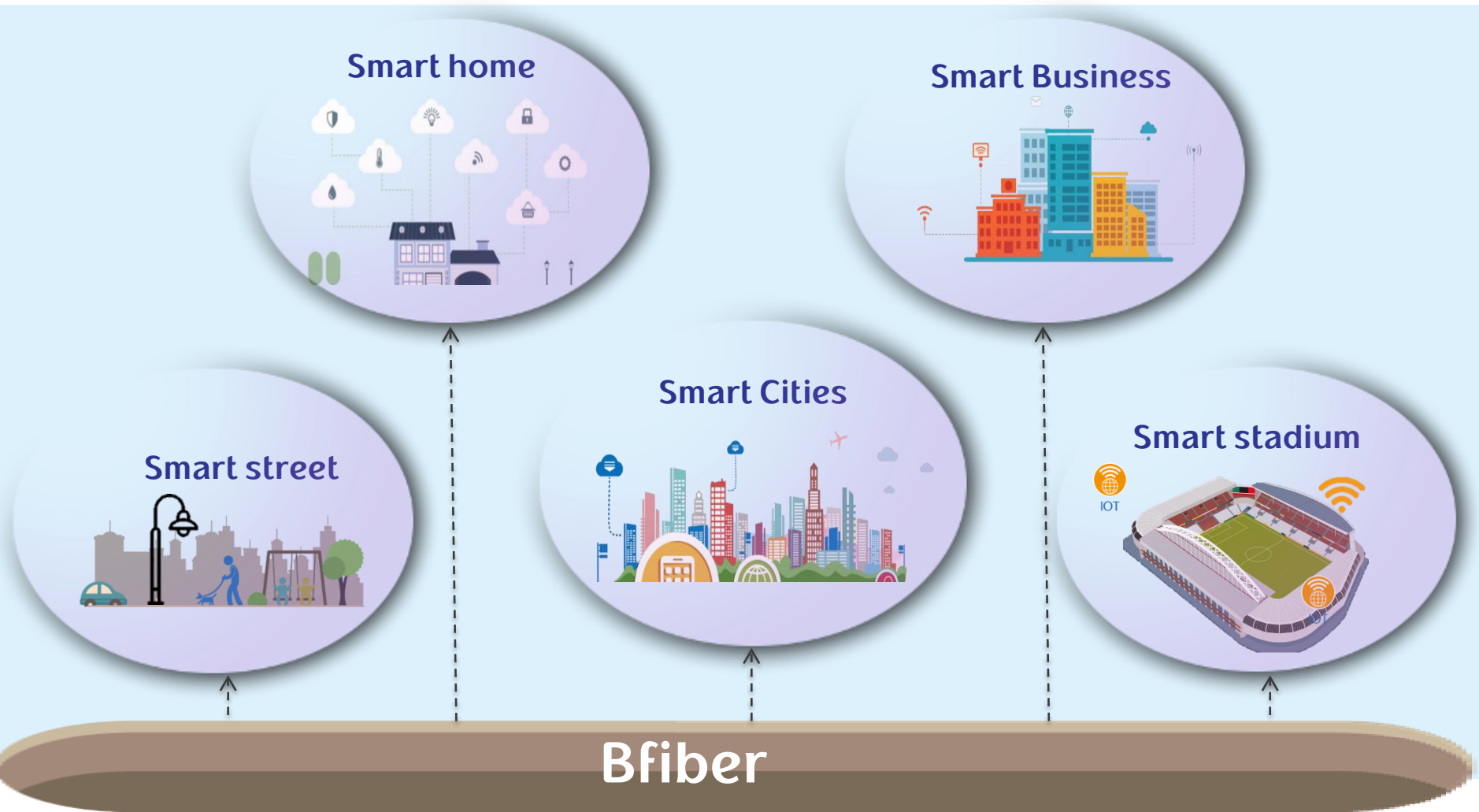
PTP



G.Fast

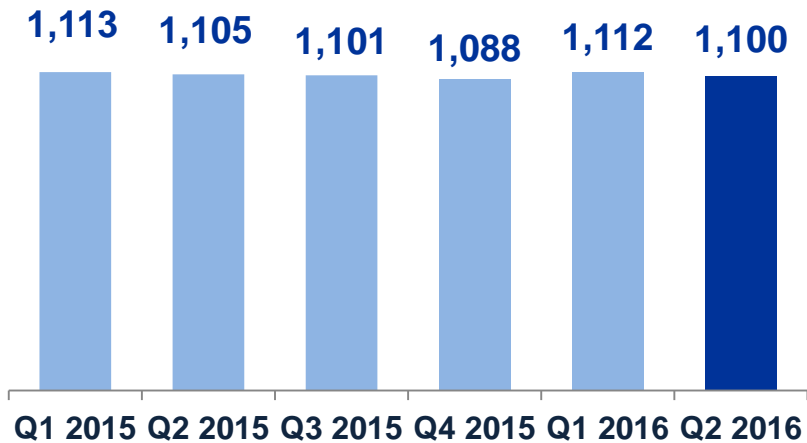


We are investing in a solid base of innovative and advanced infrastructures to support the digital lifestyle

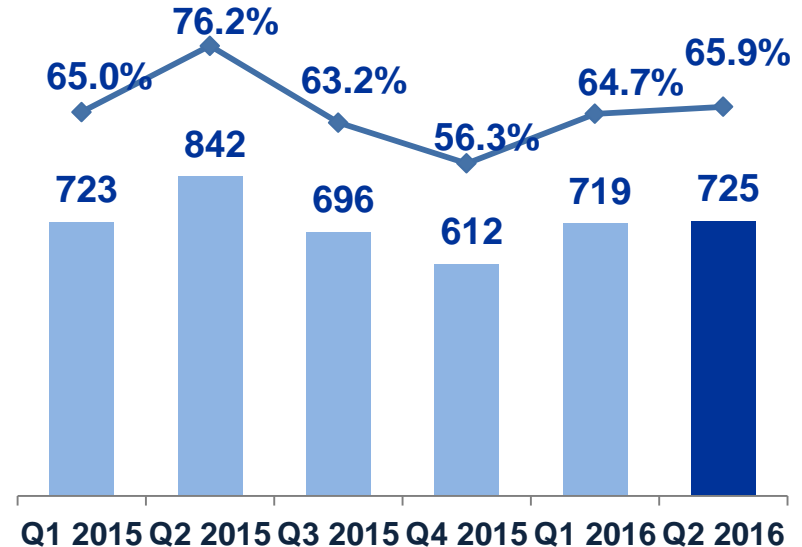


Bezeq Fixed-Line – Revenue & EBITDA

Bezeq Fixed-Line Revenue
NIS MM



Bezeq Fixed-Line EBITDA
NIS MM



- Stable y-o-y revenue in Q2 2016 due to higher revenue from broadband Internet services as well as transmission and data communication services offset by a decrease in telephony revenue.
- EBITDA was impacted by the recording of NIS 146m of capital gains from the sale of fixed assets in the corresponding quarter of 2015



Pelephone

Cellular

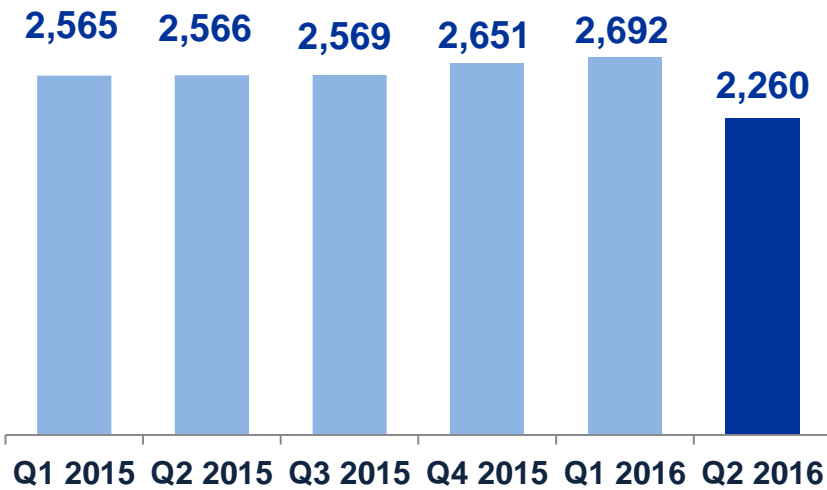


- 2.26 million cellular customers
- Nationwide HSPA network; wide deployment of 4G (LTE) network
- Pelephone private label smartphones (Gini)
- Strong platform for advanced data services
- Host of value added services (cloud, music, TV, ringtones, etc.)

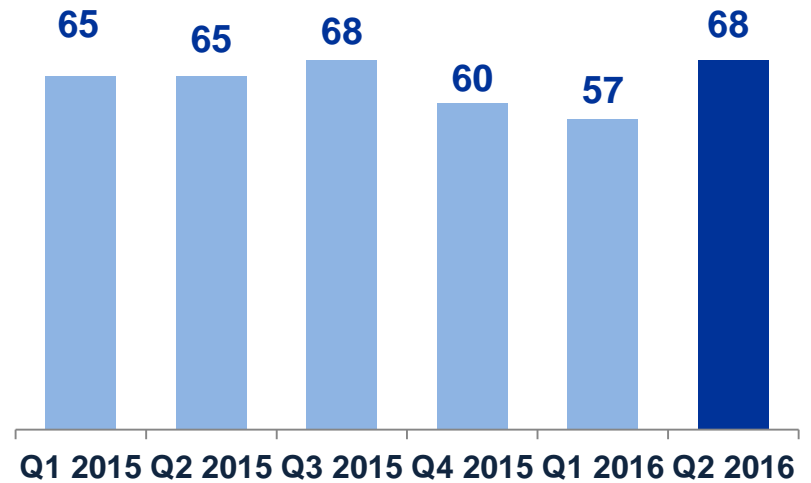


Telephone KPIs

Subscribers (in 000's)



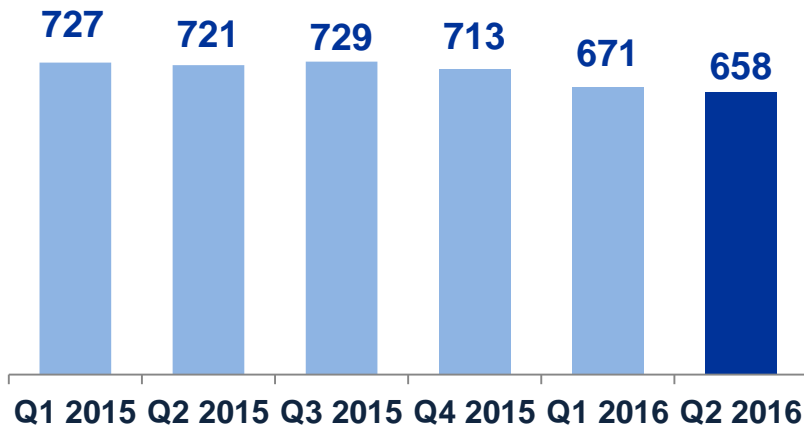
ARPU (NIS)



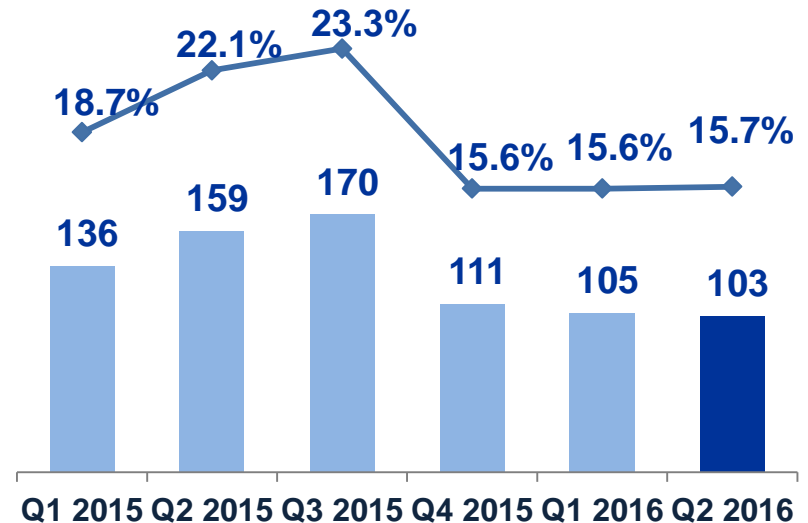
- Total subscribers and ARPU were impacted by write-off of 499k CDMA subscribers in Q2 2016.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- Revenue and EBITDA declined 8.7% and 35.2% respectively y-o-y driven by lower revenues from cellular services primarily due to increased competition in the cellular market and the transition of existing customers to lower-priced plans with higher data volumes.

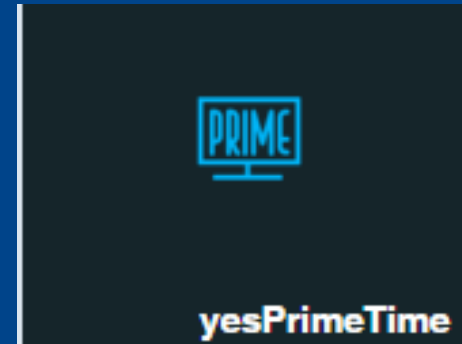
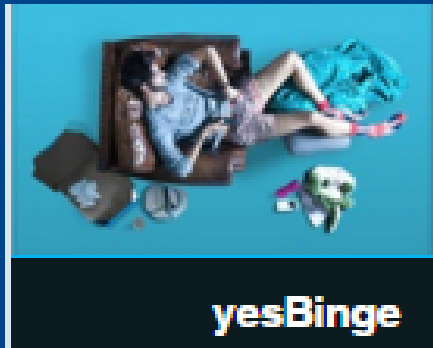


**Multi-Channel
DTH Provider**



Leading brand for content, innovative applications and customer service

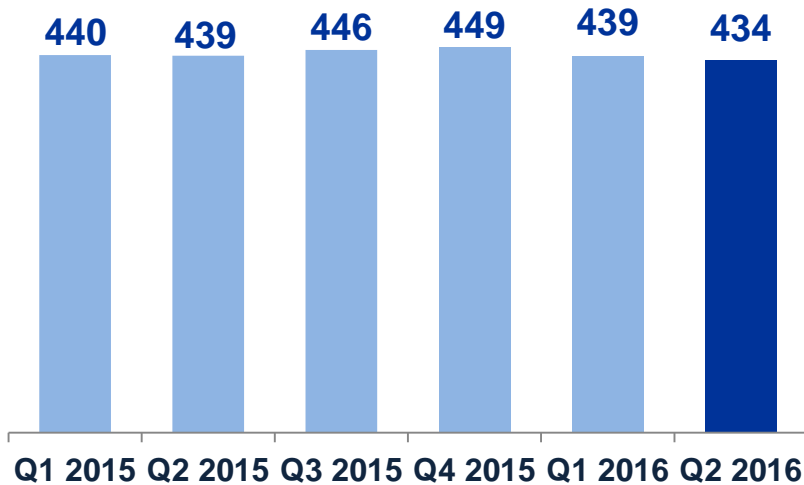
- *Fully digital with nationwide deployment*
- *44% market share*
- *Growing customer base with stable ARPU, supported by increased revenues from VOD and other advanced services*
- *Rich content offering with extensive agreements with first-tier content producers*
- *Over 160 channels including 39 yes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



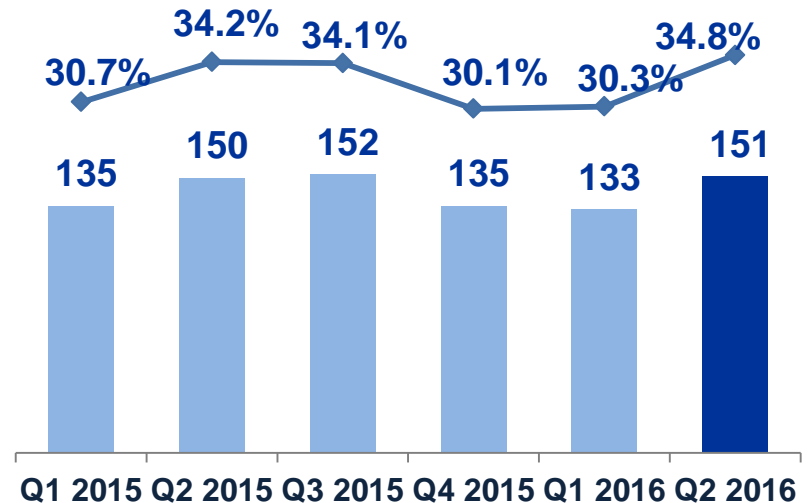
- ✓ Innovative applications based on state-of-the-art technology
- ✓ Average of three set-top boxes per household with significant proportion of HD

yes – Revenue & EBITDA

yes Revenue
NIS MM



yes EBITDA
NIS MM



- Revenues in Q2 2016 decreased 1.1% y-o-y to NIS 434 million due to decrease of 2.0% in the number of subscribers.
- EBITDA in Q2 2016 increased 0.7% y-o-y to NIS 151million for an EBITDA margin of 34.8%.



ISP / ILD / ICT

Bezeq International

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

ISP



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

ILD



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

ICT



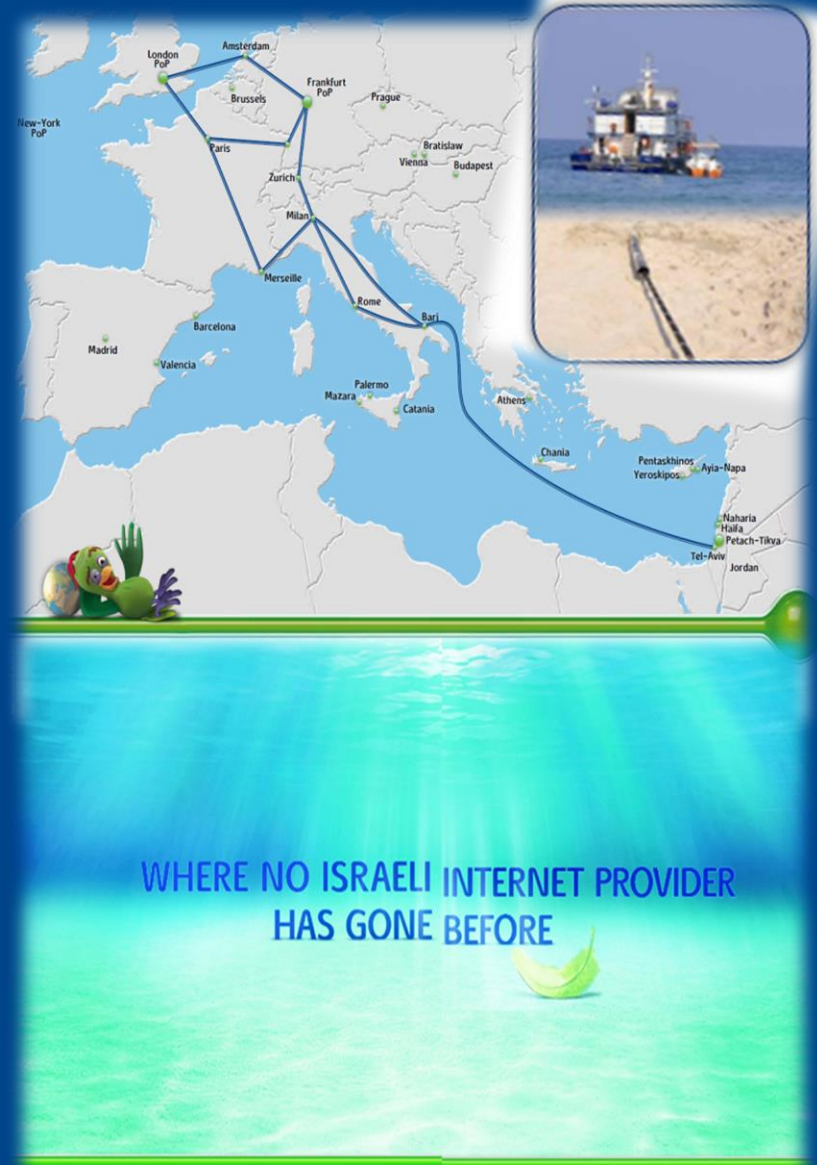
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

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

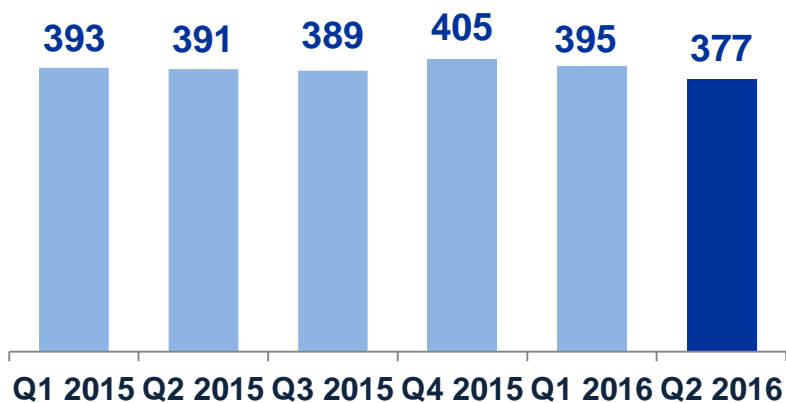
Bezeq International's submarine cable provides a platform to:

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

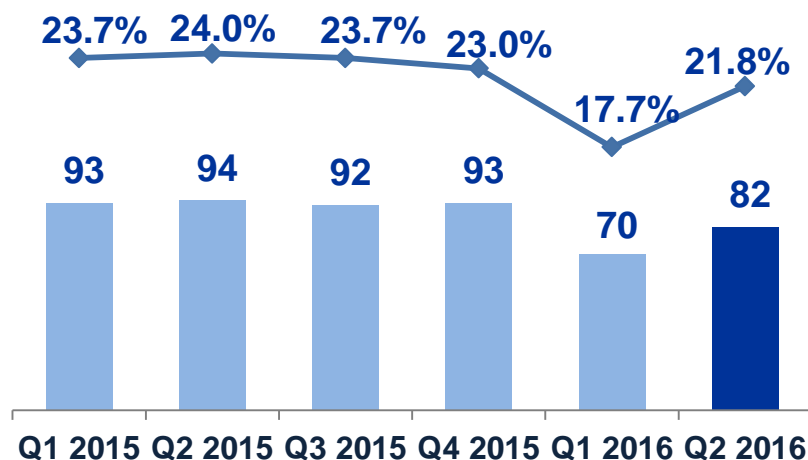


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in Q2 2016 decreased 3.6% y-o-y to 377 million due to a reduction in hubbing activities.
- EBITDA in Q2 2016 decreased 12.8% to NIS 82 million due to expenses relating to the implementation of the collective labor agreement.

Market Changes Create New Opportunities for the Bezeq Group



**Removal of
Structural Separation**

**Demand for
Smartphones,
Tablets
and Data Services**

**Increased Demand
for High Speed
Internet**

**Demand for Content
and Advanced
Services (HD, VOD)**

Embracing the Telecom Future

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

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

Maintaining quality personnel and strong management

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

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



Thank You

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