



## BEZEQ GROUP REPORTS FOURTH QUARTER & FULL YEAR 2018 FINANCIAL RESULTS

Tel Aviv, Israel – March 28, 2019 – Bezeq – The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), Israel's leading telecommunications provider, today announced its financial results for the three months and year ended December 31, 2018. Details regarding the investor conference call and webcast to be held today are included later in this press release.

Bezeq Group (consolidated)	Q4 2018	Q4 2017	% change	FY 2018	FY 2017	% change
	(NIS millions)			(NIS millions)		
Revenues	2,326	2,458	(5.4%)	9,321	9,789	(4.8%)
Operating profit	(1,810)	427		(548)	2,110	
EBITDA*	(1,230)	854		1,641	3,825	(57.1%)
EBITDA margin	(52.9%)	34.7%		17.6%	39.1%	
Net profit	(1,755)	205		(1,066)	1,235	
Diluted EPS (NIS)	(0.63)	0.07		(0.39)	0.45	
Cash flow from operating activities*	914	842	8.6%	3,512	3,525	(0.4%)
Payments for investments	416	391	6.4%	1,727	1,530	12.9%
Free cash flow <sup>1</sup>	679	473	43.6%	1,598	2,093	(23.7%)
Net debt/Adjusted EBITDA (EOP)	2.51	2.41		2.51	2.41	

\* 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 2018 was an increase of NIS 412 million and NIS 397 million, respectively.

<sup>1</sup> 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.

**Shlomo Rodav, Bezeq's Chairman**, stated, "Over the last twelve months, we have implemented profound change in the way the group operates in order to conform to the most stringent corporate governance standards. At the same time, we have made significant strategic moves to give the Bezeq Group the ability to continue to successfully cope with the technological, competitive and regulatory changes. In this context, we have taken many steps, including reductions in the management team and streamlining processes in the subsidiaries, while negotiating with the labor unions, with a new collective arrangement already signed by yes. yes also began a significant project to migrate from satellite to IP broadcasting. Concurrently, Bezeq Fixed-Line is implementing a significant employee retirement plan that will lead to material efficiencies in the company.

Alongside these, we continued to create future growth engines for the Group, so that we will continue to be the leading telecommunications company in Israel regardless of the intense competitive environment, existing regulatory conditions and expected changes in technologies and business models in Israel and the world. This is done by developing new areas of activity in each of the companies, while preparing the basis for the next generation of communications services. We are in talks with the regulator so that advanced communications infrastructures can be developed for the State of Israel. We are ready to invest huge sums of money for this purpose, and hope that the State will succeed in creating a clear, positive and equal regulatory framework in order to bring the State



of Israel to the forefront of global infrastructure. Bezeq is the only company in Israel that is willing and capable of deploying fiber optics nationwide and provide everyone with ultra-fast internet, and Pelephone has already begun preparations for the 5G cellular network."

**Yali Rothenberg, CPA, Bezeq Group's Chief Financial Officer** commented, "The 2018 results were affected by one-time provisions totaling NIS 2.31 billion, which eroded profitability. These include, *inter alia*, a loss of NIS 1.68 billion, mainly due to a loss from impairment of assets in yes, and a provision of NIS 559 million in respect of the early retirement of employees. Today we published our forecast for 2019 that maintains financial stability in EBITDA and net profit. In addition, we plan to replace part of the financial debt, including extending durations, in order to maintain the financial strength of the company, for the benefit of all long-term stakeholders in the company."

## Bezeq Group Results (Consolidated)

**The financial results in 2018 were impacted by one-time items of over NIS 2.31 billion which reduced net profits. The key items included: A loss of NIS 1.68 billion for the impairment of assets (mainly yes) and a provision of NIS 559 million for the early retirement of employees.**

**Revenues** in 2018 totaled NIS 9.32 billion compared to NIS 9.79 billion in 2017, a decrease of 4.8%. **Revenues** in the fourth quarter of 2018 were NIS 2.33 billion, compared to NIS 2.46 billion in the same quarter of 2017, a decrease of 5.4%.

The decrease in revenues was due to lower revenues in all key Group segments.

**Salary expenses** in 2018 totaled NIS 1.99 billion compared to NIS 2.01 billion in 2017, a decrease of 0.6%. **Salary expenses** in the fourth quarter of 2018 were NIS 485 million, compared to NIS 505 million in the same quarter of 2017, a decrease of 4.0%.

The decrease in salary expenses in the fourth quarter was due to efficiency measures implemented in all key Group segments.

**Operating expenses** in 2018 totaled NIS 3.38 billion compared to NIS 3.89 billion in 2017, a decrease of 13.2%. **Operating expenses** in the fourth quarter of 2018 were NIS 885 million, compared to NIS 1.00 billion in the same quarter of 2017, a decrease of 11.8%.

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. In addition, lower expenses were recorded in terminal equipment, marketing and general expenses.

**Other operating expenses, net** in 2018 totaled NIS 634 million compared to income of NIS 19 million in 2017. **Other operating expenses** in the fourth quarter of 2018 were NIS 511 million, compared to NIS 9 million in the same quarter of 2017.

This item was impacted by the recording of a provision of NIS 559 million for the early retirement of employees compared to NIS 23 million in 2017.

**Loss from impairment of assets** in 2018 totaled NIS 1.68 billion compared to NIS 87 million in 2017. The increase was due to losses of NIS 1.64 billion from the impairment of assets of yes and NIS 37 million from the impairment of assets of Walla.

**Depreciation expenses** in 2018 totaled NIS 2.19 billion compared to NIS 1.72 billion in 2017, an increase of 27.6%. **Depreciation expenses** in the fourth quarter of 2018 were NIS 580 million, compared to NIS 427 million in the same quarter of 2017, an increase of 35.8%. 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 fourth quarter and full year 2018 were impacted by the loss from the impairment of assets of yes, the decrease in revenues and changes in other operating expenses mentioned above.**

**Operating loss** in 2018 amounted to NIS 548 million compared to operating profit of NIS 2.11 billion in 2017. **Operating loss** in the fourth quarter of 2018 amounted to NIS 1.81 billion, compared to operating profit of NIS 427 million in the same quarter of 2017.

**EBITDA** in 2018 totaled NIS 1.64 billion (EBITDA margin of 17.6%) compared to NIS 3.83 billion (EBITDA margin of 39.1%) in 2017, a decrease of 57.1%. EBITDA in the fourth quarter of 2018 amounted to a loss of NIS 1.23 billion, compared to profit of NIS 854 million (EBITDA margin of 34.7%) in the same quarter of 2017.

**After adjusting for the impact of accounting standard IFRS 16 and other income/expenses, Adjusted EBITDA** in 2018 totaled NIS 3.54 billion (EBITDA margin of 38.0%) compared to NIS 3.89 billion (EBITDA margin of 39.8%) in 2017, a decrease of 9.1%. **Adjusted EBITDA** in the fourth quarter of 2018 was NIS 853 million (EBITDA margin of 36.7%) compared to NIS 950 million (EBITDA margin of 38.6%) in the same quarter of 2017, a decrease of 10.2%.

**Financing expenses** in 2018 totaled NIS 435 million compared to NIS 417 million in 2017, an increase of 4.3%. **Financing expenses** in the fourth quarter of 2018 were NIS 108 million, compared to NIS 120 million in the same quarter of 2017, a decrease of 10.0%.

The increase in financing expenses in 2018 was primarily due to the increase in financing expenses at Bezeq Fixed-Line partially offset by the decrease in yes. In addition, financing expenses were impacted by the early adoption of accounting standard IFRS 16 beginning January 1, 2018.

The decrease in financing expenses in the fourth quarter was primarily due to the decrease in financing expenses at yes.

**Tax expenses** in 2018 totaled NIS 80 million compared to NIS 453 million in 2017, a decrease of 82.3%. **Tax income** in the fourth quarter of 2018 amounted to NIS 163 million, compared to tax expenses of NIS 101 million in the same quarter of 2017.

The decrease in tax expenses was primarily due to a reduction in profitability, the write-off of the tax reserve due to impairment as well as a decrease in the corporate tax rate from 24% to 23% in 2018.



**Net loss** in 2018 amounted to NIS 1.07 billion compared to a net profit of NIS 1.24 billion in 2017. **Net loss** in the fourth quarter of 2018 amounted to NIS 1.76 billion, compared to a net profit of NIS 205 million in the same quarter of 2017.

The decrease in net loss was primarily due to the aforementioned decrease in operating profit partially offset by the decrease in tax expenses.

**Cash flow from operating activities** in 2018 totaled NIS 3.51 billion compared to NIS 3.53 billion in 2017, a decrease of 0.4%. **Cash flow from operating activities** in the fourth quarter of 2018 was NIS 914 million, compared to NIS 842 million in the same quarter of 2017, an increase of 8.6%.

**Payments for investments (Capex)** in 2018 totaled NIS 1.73 billion compared to NIS 1.53 billion in 2017, an increase of 12.9%. **Payments for investments** in the fourth quarter of 2018 amounted to NIS 416 million, compared to NIS 391 million in the same quarter of 2017, an increase of 6.4%.

The increase in investments in 2018 was primarily due to payments of NIS 121 million for permit fees and purchase tax relating to the sale of "Sakia".

**Free cash flow** in 2018 totaled NIS 1.60 billion compared to NIS 2.09 billion in 2017, a decrease of 23.7%. **Free cash flow** in the fourth quarter of 2018 was NIS 679 million, compared to NIS 473 million in the same quarter of 2017, an increase of 43.6%.

The decrease in free cash flow in 2018 was primarily due to a decrease in profitability.

The increase in free cash flow in the fourth quarter of 2018 was primarily due to an increase in proceeds from the sale of real estate of NIS 272 million compared to NIS 22 million in the corresponding quarter of 2017.

**Net financial debt** of the Group was NIS 8.88 billion as of December 31, 2018 compared to NIS 9.39 billion as of December 31, 2017. As of December 31, 2018, the Group's net financial debt to Adjusted EBITDA ratio was 2.51, compared to 2.41 as of December 31, 2017.

## Change in Dividend Policy

The Company's Board of Directors resolved to cancel the Company's dividend distribution policy, which was recently updated on March 6, 2018. The decision was made from a position of clarity and transparency vis-a-vis shareholders and the circumstances that emerged due to the impossibility of distributing a dividend as a result of the expected failure to meet the "profit test" in the next two years. Accordingly, the Board of Directors decided that it would not be appropriate to maintain a dividend policy when in practice it is not effective.

The cancellation of the dividend policy will not prevent the Company's Board of Directors from examining from time to time the distribution of dividends to the Company's shareholders, taking into consideration, among other factors, the provisions of the law, the state of the Company's business and its capital structure, and the need to maintain a balance between ensuring the Company's financial strength and stability and the continued creation of value to the shareholders of the Company, all of which are subject to the approval of the general meeting of shareholders of the Company with respect to each specific distribution, as prescribed in the Company's Articles of Association.

**2019 Outlook**

Below is the Bezeq Group's outlook for 2019, based on the existing information known to the Bezeq Group today:

Net profit attributable to shareholders:	Approximately NIS 900 million - NIS 1.0 billion
EBITDA:	Approximately NIS 3.9 billion
CAPEX*:	Approximately NIS 1.7 billion

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 and do not include the effects of the provision for early retirement of employees and the signing of collective labor agreements in the Group, including the collective labor agreement with DBS (see immediate report dated March 14, 2019), and do not include the effects, if any, of the cancellation of the Group's structural separation and the merger with the subsidiary companies and everything involved therein in 2019. 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 2019. Actual results may 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 and developments in the structure of the telecommunications market, and so forth, or the realization of one or more of the risk factors listed in the Periodic Report of 2018.

The Company shall report, as required, deviations of more/less than 10% of the range and amounts stated in the forecast.

\*CAPEX – payments for investments in fixed and intangible assets

**Increase in Registered Share Capital**

The Board of Directors approved the convening of a general meeting of shareholders for which the agenda will include the approval of the increase of the Company's registered share capital by one billion shares of NIS 1 par value each, as a preliminary step towards a potential capital raising of up to NIS 2 billion through a rights offering, subject to the necessary decisions and approvals.

In so far as it is implemented, the rights issuance is expected to enable a faster reduction in debt, an improvement in coverage ratios, maintenance of a high credit rating, and financial flexibility for investment and operational activities, etc.

As of this date, the publication of a prospectus and the execution of funding has not yet been approved, and there is no certainty that capital will be raised and at what timing, structure or terms.



## Bezeq Fixed-Line Results

**Dudu Mizrahi, Bezeq CEO**, commented, "We are experiencing significant momentum in all areas of our operation. Over the last few months, we have been working on creating the company's future growth engines, while strengthening the penetration of existing services. In this framework, we focused, among other things, on setting up advanced home networks based on the BE router and Bspot service. We expanded the retail activity and the sales of terminal equipment, and we are expanding the range of services offered to private and business customers and more. We are beginning to reap the rewards of these activities and expect their influence to increase in the coming quarters. At the same time, we continued to invest in upgrading our telecommunications networks, expanding their deployment and improving their durability. We have also taken steps and are continuing to improve our service to our customers to the highest possible level.

In addition, we continued to focus on efficiency and streamlining measures, and implemented a significant early retirement program. For this purpose, in the fourth quarter of 2018, we made a provision for early retirement which had a material effect on the Company's profitability metrics in the fourth quarter of 2018 and for the year 2018, but the positive effect of the move on the Company's expenses will be felt in the coming quarters.

At the same time, we are committed in our efforts to advance our infrastructure to the next level including ultra-fast fiber-optic broadband Internet. We are fully prepared and ready to provide these advanced services nationwide, and expect to receive the regulatory approvals that will enable it as soon as possible."

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**Revenues** in 2018 totaled NIS 4.20 billion compared to NIS 4.24 billion in 2017, a decrease of 1.1%. **Revenues** in the fourth quarter of 2018 were NIS 1.03 billion, compared to NIS 1.05 billion in the same quarter of 2017, a decrease of 2.0%.

The decrease in revenues was primarily due to a decrease in telephony revenues, which was partially offset by an increase in revenues from broadband Internet and cloud & digital services.

**Revenues from broadband Internet services (retail and wholesale)** in 2018 totaled NIS 1.60 billion compared to NIS 1.54 billion in 2017, an increase of 3.4%. **Revenues from broadband Internet services** in the fourth quarter of 2018 were NIS 396 million, compared to NIS 395 million in the same quarter of 2017, an increase of 0.3%.

The increase in revenues from broadband Internet services was primarily due to growth of 1.3% in the number of Internet lines, which reached 1.66 million subscribers as well as an increase in the average revenue per retail subscriber of 3.3% in 2018 and 4.3% in the fourth quarter of 2018.

**Revenues from telephony services** in 2018 totaled NIS 1.16 billion compared to NIS 1.28 billion in 2017, a decrease of 9.8%. **Revenues from telephony services** in the fourth quarter of 2018 were NIS 281 million, compared to NIS 309 million in the same quarter of 2017, a decrease of 9.1%.

The decrease in telephony revenues was due to a reduction in the average revenue per line of 3.7% in 2018 and 3.8% in the fourth quarter of 2017 as well as a decrease of 5.1% in the number of access lines.



**Revenues from transmission and data communication services** in 2018 totaled NIS 977 million compared to NIS 975 million in 2017, an increase of 0.2%. **Revenues from transmission and data communication services** in the fourth quarter of 2018 were NIS 243 million, compared to NIS 237 million in the same quarter of 2017, an increase of 2.5%.

**Revenues from cloud & digital services** in 2018 totaled NIS 260 million compared to NIS 230 million in 2017, an increase of 13.0%. **Revenues from cloud & digital services** in the fourth quarter of 2018 were NIS 63 million, compared to NIS 60 million in the same quarter of 2017, an increase of 5.0%. 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 2018 totaled NIS 596 million compared to NIS 677 million in 2017, a decrease of 12.0%. **Operating expenses** in the fourth quarter of 2018 were NIS 168 million, compared to NIS 163 million in the same quarter of 2017, an increase of 3.1%. The decrease in operating expenses in 2018 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. In addition, lower expenses were recorded in payments to telecommunication operators, marketing and general expenses.

The increase in operating expenses in the fourth quarter of 2018 was primarily due to an increase in advertising expenses.

**Salary expenses** in 2018 totaled NIS 912 million compared to NIS 891 million in 2017, an increase of 2.4%. **Salary expenses** in the fourth quarter of 2018 were NIS 219 million, compared to NIS 223 million in the same quarter of 2017, a decrease of 1.8%. The increase was due to an increase in salaries resulting from collective labor agreements.

**Other operating expenses, net** in 2018 amounted to NIS 614 million, compared to income of NIS 23 million in the same quarter of 2017. **Other operating expenses** in the fourth quarter of 2018 amounted to expenses of NIS 509 million, compared to NIS 6 million in the same quarter of 2017.

Other operating expenses/income was impacted by the recording of provisions for early retirement of NIS 547 million compared to NIS 23 million in 2017.

**Depreciation expenses** in 2018 totaled NIS 850 million compared to NIS 728 million in 2017, an increase of 16.8%. **Depreciation expenses** in the fourth quarter of 2018 were NIS 217 million, compared to NIS 185 million in the same quarter of 2017, an increase of 17.3%. 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 2018 and in the fourth quarter of 2018 were primarily impacted by the aforementioned changes in other operating expenses/income, net.

**Operating profit** in 2018 totaled NIS 1.22 billion compared to NIS 1.97 billion in 2017, a decrease of 37.9%. **Operating loss** in the fourth quarter of 2018 amounted to NIS 87 million, compared to profit

of NIS 470 million in the same quarter of 2017. The decrease in operating profit was primarily due to the aforementioned provision for early retirement of NIS 547 million.

**EBITDA** in 2018 totaled NIS 2.07 billion (EBITDA margin of 49.4%) compared to NIS 2.70 billion (EBITDA margin of 63.6%) in the same quarter of 2017, a decrease of 23.2%. **EBITDA** in the fourth quarter of 2018 was NIS 130 million (EBITDA margin of 12.7%), compared to NIS 655 million (EBITDA margin of 62.6%) in the same quarter of 2017, a decrease of 80.2%.

**After adjusting for the impact of accounting standard IFRS 16 and other income/expenses, Adjusted EBITDA** in 2018 totaled NIS 2.60 billion (EBITDA margin of 62.0%) compared to NIS 2.68 billion (EBITDA margin of 63.1%) in 2017, a decrease of 2.8%. **Adjusted EBITDA** in the fourth quarter of 2018 was NIS 621 million (EBITDA margin of 60.5%) compared to NIS 661 million (EBITDA margin of 63.1%) in the same quarter of 2017, a decrease of 6.1%.

**Financing expenses** in 2018 totaled NIS 470 million compared to NIS 403 million in 2017, an increase of 16.6%. **Financing expenses** in the fourth quarter of 2018 were NIS 117 million, compared to NIS 122 million in the same quarter of 2017, a decrease of 4.1%.

The increase in financing expenses in 2018 was primarily due to the recording of NIS 43 million of expenses for the write off of the balance of the debt owed the Company on account of the second contingent consideration in connection with the acquisition of yes, compared to financing income of NIS 14 million in 2017.

**Tax expenses** in 2018 totaled NIS 187 million compared to NIS 396 million in 2017, a decrease of 52.8%. **Tax income** in the fourth quarter of 2018 amounted to NIS 49 million, compared to tax expenses of NIS 88 million in the same quarter of 2017.

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 2018 totaled NIS 567 million compared to NIS 1.17 billion in 2017, a decrease of 51.6%. **Net loss** in the fourth quarter of 2018 amounted to NIS 155 million, compared to net profit of NIS 260 million in the same quarter of 2017.

The decrease in net profit was primarily due to the aforementioned decrease in operating profit partially offset by the decrease in tax expenses.

**Cash flow from operating activities** in 2018 totaled NIS 2.21 billion compared to NIS 2.23 billion in 2017, a decrease of 0.9%. **Cash flow from operating activities** in the fourth quarter of 2018 amounted to NIS 600 million, compared to NIS 587 million in the same quarter of 2017, an increase of 2.2%.

**Payments for investments (Capex)** in 2018 totaled NIS 976 million compared to NIS 825 million in 2017, an increase of 18.3%. **Payments for investments** in the fourth quarter of 2018 were NIS 225 million, compared to NIS 226 million in the same quarter of 2017, a decrease of 0.4%.

The increase in investments in 2018 was primarily due to payments of NIS 121 million for permit fees and purchase tax relating to the sale of "Sakia".





**Free cash flow** in 2018 totaled NIS 1.36 billion compared to NIS 1.49 billion in 2017, a decrease of 9.1%. **Free cash flow** in the fourth quarter of 2018 was NIS 636 million, compared to NIS 383 million in the same quarter of 2017, a decrease of 66.1%.

The decrease in free cash flow in 2018 was primarily due to a decrease in profitability.

The increase in free cash flow in the fourth quarter of 2018 was primarily due to an increase in proceeds from the sale of real estate of NIS 270 million compared to NIS 22 million in the corresponding quarter of 2017.

The number of broadband Internet lines (retail and wholesale) at the end of 2018 totaled 1.66 million, a decrease of 7,000 lines compared to the third quarter of 2018. The number of wholesale broadband Internet lines continued to grow and reached 626,000 lines, representing a sequential increase of 9,000 lines. During the past year, the number of wholesale lines grew by 94,000.

During the fourth quarter of 2018, **average broadband speeds** reached 59.1 Mbps, compared to 57.4 Mbps sequentially, and 51.5 Mbps in the fourth quarter of 2017, representing a year-over-year increase of 14.8%.

**Average revenue per Internet subscriber (ARPU - retail)** in the fourth quarter of 2018 was NIS 96, compared to NIS 93 sequentially and NIS 92 in the fourth quarter of 2017.

The number of **telephony access lines** totaled 1.818 million at the end of 2018, compared to 1.843 million sequentially and 1.916 million at the end of 2017.

**Average revenue per line (ARPL)** in the fourth quarter of 2018 totaled NIS 51, in-line sequentially and compared to NIS 53 in the fourth quarter of 2017.

Bezeq Fixed-Line - Financial data	Q4 2018	Q4 2017	% change	FY 2018	FY 2017	% change
	(NIS millions)			(NIS millions)		
Total revenues	1,026	1,047	(2.0%)	4,196	4,244	(1.1%)
Broadband Internet revenues	396	395	0.3%	1,596	1,544	3.4%
Telephony revenues	281	309	(9.1%)	1,156	1,281	(9.8%)
Transmission and data revenues	243	237	2.5%	977	975	0.2%
Cloud & digital services revenues	63	60	5.0%	260	230	13.0%
Other revenues	43	46	(6.5%)	207	214	(3.3%)
Operating profit	(87)	470		1,224	1,971	(37.9%)
EBITDA*	130	655	(80.2%)	2,074	2,699	(23.2%)
EBITDA margin	12.7%	62.6%		49.4%	63.6%	
Net profit <sup>1</sup>	(155)	260		567	1,172	(51.6%)
Cash flows from operating activities*	600	587	2.2%	2,206	2,225	(0.9%)
Payments for investments	225	226	(0.4%)	976	825	18.3%
Free cash flow <sup>2</sup>	636	383	66.1%	1,358	1,494	(9.1%)

\* 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 2018 was an increase of NIS 87 million and NIS 74 million, respectively.

<sup>1</sup> Excluding share in profits/losses of equity-accounted investees.

<sup>2</sup> 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	Q4 2018	Q3 2018	Q4 2017
Active subscriber lines (in thousands) <sup>1</sup>	1,818	1,843	1,916
Average monthly revenue per line (NIS) <sup>2</sup>	51	51	53
Outgoing minutes (millions)	989	960	1,068
Incoming minutes (millions)	1,160	1,125	1,205
Churn rate (%) <sup>3</sup>	3.1%	2.7%	2.4%
Total broadband Internet lines (in thousands) <sup>4</sup>	1,656	1,663	1,635
Of which: Wholesale broadband Internet lines (in thousands) <sup>4</sup>	626	617	532
Average monthly revenue per broadband Internet subscriber (NIS) - Retail	96	93	92
Average broadband speed per subscriber (end of period, Mbps)	59.1	57.4	51.5

<sup>1</sup> Inactive subscribers are those whose lines have been physically disconnected (except for a subscriber in the first three months of collection proceedings).

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

## Telephone Results

**Ran Guron, CEO of Pelephone**, stated, "We are proud that in the fourth quarter of 2018 Pelephone became, for the first time, the largest cellular company in Israel. In 2018, we saw further competition in the cellular market with the entrance of another operator. Despite this, we grew subscribers for the third consecutive year, maintained stability in service revenues and led in sales of equipment, while revenues of incumbent operators continued to erode. These achievements attest to our operational strength.

Guron added: "In the last quarter of 2018, we launched the new generation of Pelephone IOT for the private sector and small businesses. In addition, we were the first in Israel to market an upgraded version of e-sim watches and the next generation of Pelephone CAR."

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**Revenues from services** in 2018 totaled NIS 1.75 billion compared to NIS 1.78 billion in 2017, a decrease of 1.5%. **Revenues from services** in the fourth quarter of 2018 were NIS 437 million, in-line with the same quarter of 2017.

The stability in revenues from cellular services was due to an increase in revenues from new subscribers that offset the decrease in market prices due to the transition of existing customers to lower priced plans including higher data plans.

**Revenues from equipment sales** in 2018 totaled NIS 688 million compared to NIS 764 million in 2017, a decrease of 9.9%. **Revenues from equipment sales** in the fourth quarter of 2018 were NIS 181 million, compared to NIS 214 million in the same quarter of 2017, a decrease of 15.4%.

**Total revenues** in 2018 totaled NIS 2.44 billion compared to NIS 2.55 billion in 2017, a decrease of 4.0%. **Total revenues** in the fourth quarter of 2018 were NIS 618 million, compared to NIS 651 million in the same quarter of 2017, a decrease of 5.1%.

**EBITDA** in 2018 totaled NIS 653 million (EBITDA margin of 26.7%) compared to NIS 455 million (EBITDA margin of 17.9%) in 2017, an increase of 43.5%. **EBITDA** in the fourth quarter of 2018 was NIS 173 million (EBITDA margin of 28.0%), compared to NIS 105 million (EBITDA margin of 16.1%) in the same quarter of 2017, an increase of 64.8% compared to the corresponding quarter.

The increase in EBITDA was due to the capitalization of NIS 260 million of leasing expenses in 2018 due to the early adoption of accounting standard IFRS 16 beginning January 1, 2018, which was partially offset by a decrease in revenues.

**Net profit** in 2018 totaled NIS 24 million compared to NIS 95 million in 2017, a decrease of 74.7%. **Net profit** in the fourth quarter of 2018 was NIS 2 million, compared to NIS 21 million in the same quarter of 2017, a decrease of 90.5%.

**Cash flow from operating activities** in 2018 totaled NIS 770 million compared to NIS 605 million in 2017, a decrease of 27.3%. **Cash flow from operating activities** in the fourth quarter of 2018 were NIS 156 million, compared to NIS 86 million in the same quarter of 2017, an increase of 81.4%.



The decrease in cash flow from operating activities in 2018 was primarily due to the reclassification of NIS 259 million of payments in respect of lease agreements from operating activities to cash flow from financing activities as a result of the early adoption of the accounting standard IFRS 16 beginning January 1, 2018. The increase was partially offset by a decrease in profitability as well as changes in working capital.

**Free cash flow** in 2018 totaled NIS 205 million compared to NIS 296 million in 2017, a decrease of 30.7%. **Free cash flow** in the fourth quarter of 2018 was NIS 8 million, compared to NIS 10 million in the same quarter of 2017, a decrease of 20.0%.

**Pelephone's subscriber base** increased by 106,000 subscribers in 2018 (after adjusting for the change in subscriber definition) and total subscribers were 2.205 million at the end of December 2018.

In the beginning of the third quarter of 2018, pursuant to changes made in the definition of a subscriber, 426,000 prepaid subscribers and 2,000 postpaid subscribers were removed from Pelephone's list of subscribers. These subscribers did not make an outgoing call during the past six months, most of them joined more than three years ago and they did not generate significant revenue for the Company.

**Average revenue per subscriber (ARPU)** in the fourth quarter of 2018 was NIS 66 after the aforementioned change in subscriber definition.

Telephone - Financial data	Q4 2018	Q4 2017	% change	FY 2018	FY 2017	% change
	(NIS millions)			(NIS millions)		
Total revenues	618	651	(5.1%)	2,443	2,546	(4.0%)
Service revenues	437	437	0.0%	1,755	1,782	(1.5%)
Equipment revenues	181	214	(15.4%)	688	764	(9.9%)
Operating profit	(4)	15		(2)	72	
EBITDA*	173	105	64.8%	653	455	43.5%
EBITDA margin	28.0%	16.1%		26.7%	17.9%	
Net profit	2	21	(90.5%)	24	95	(74.7%)
Cash flows from operating activities*	156	86	81.4%	770	605	27.3%
Payments for investments	78	77	1.3%	310	310	0.0%
Free cash flow <sup>1</sup>	8	10	(20.0%)	205	296	(30.7%)

\* 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 2018 was an increase of NIS 260 million and NIS 259 million, respectively.

<sup>1</sup> 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.

Telephone - KPIs	Q4 2018	Q3 2018	Q4 2017
Total subscribers (end of period, in thousands) <sup>1,4</sup>	2,205	2,185	2,525
Postpaid subscribers (end of period, in thousands) <sup>1,4</sup>	1,831	1,817	1,729
Prepaid subscribers (end of period, in thousands) <sup>1,4</sup>	374	368	796
Average revenue per user (ARPU, NIS) <sup>2,4</sup>	66	68	58
Churn rate <sup>3,4</sup>	9.0%	9.1%	6.9%

<sup>1</sup> Subscriber data includes Pelephone subscribers (excluding subscribers of operators that Pelephone hosts on its network as well as IOT subscribers as of Q3 2018) 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. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. A customer may have more than one subscriber line. In 2017, 26,000 postpaid subscribers were reclassified as prepaid subscribers. Regarding the change in the definition of subscribers from Q3 2018, see Note 4 below.

<sup>2</sup> Average monthly revenue per subscriber (postpaid and prepaid) 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. Regarding the effect of the change in the definition of subscribers from Q3 2018 on average revenue per subscriber, see Note 4 below.

<sup>3</sup> Churn rate is calculated according to the proportion of subscribers who have disconnected from Pelephone's services and subscribers who have become inactive during the period divided by the total number of average active subscribers during the period. Regarding the effect of the change in the definition of subscribers from Q3 2018 on the churn rate, see Note 4 below.

<sup>4</sup> At the beginning of Q3 2018, 426,000 prepaid subscribers and 2,000 IOT subscribers were written off the list of subscribers. This led to an increase of NIS 5.1 in ARPU and an increase of 2.7% in the churn rate in 2018.



## Bezeq International Results

**Ran Guron, CEO of Bezeq International**, said, "We maintained significant strengths in innovation and value-add services in both private and business operations, as well as an emphasis on cloud services and a global network of data centers despite rising competition. In 2018 we maximized value to our customers and offered a triple bundle with yes's STINGTV."

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**Revenues** in 2018 totaled NIS 1.391 billion compared to NIS 1.537 billion in 2017, a decrease of 9.5%. **Revenues** in the fourth quarter of 2018 were NIS 370 million compared to NIS 379 million in the same quarter of 2017, a decrease of 2.4%.

The decrease in revenues was primarily due to the sale of a one-time license to a business customer in 2017, the decrease in revenues from international calls as well as the one-time sale of the IT outsourcing services business.

**Operating expenses** in 2018 totaled NIS 1.275 billion compared to NIS 1.363 billion in 2017, a decrease of 6.4%. **Operating expenses** in the fourth quarter of 2018 were NIS 349 million compared to NIS 338 million in the same quarter of 2017, an increase of 3.3%.

The decrease in operating expenses in 2018 was due to the adjustment of the Company's cost structure in line with a decrease in revenues.

**Profitability metrics** were impacted by the decrease in sales of equipment for communication solutions as well as the decrease in international call operations.

**Operating profit** in 2018 totaled NIS 116 million compared to NIS 174 million in 2017, a decrease of 33.3%. **Operating profit** in the fourth quarter of 2018 was NIS 21 million compared to NIS 41 million in the same quarter of 2017, a decrease of 48.8%.

**EBITDA** in 2018 totaled NIS 310 million (EBITDA margin of 22.3%) compared to NIS 309 million (EBITDA margin of 20.1%) in 2017, an increase of 0.3%. EBITDA in the fourth quarter of 2018 was NIS 81 million (EBITDA margin of 21.9%) compared to NIS 76 million (EBITDA margin of 20.1%) in the same quarter of 2017, an increase of 6.6%.

**Net profit** in 2018 totaled NIS 77 million compared to NIS 127 million in 2017, a decrease of 39.4%. **Net profit** in the fourth quarter of 2018 was NIS 13 million compared to NIS 31 million in the same quarter of 2017, a decrease of 58.1%.

**Cash flow from operating activities** in 2018 totaled NIS 300 million compared to NIS 277 million in 2017, an increase of 8.3%. **Cash flow from operating activities** in the fourth quarter of 2018 was NIS 106 million compared to NIS 82 million in the same quarter of 2017, an increase of 29.3%.

**Free cash flow** in 2018 totaled NIS 138 million, in-line with 2017. **Free cash flow** in the fourth quarter of 2018 was NIS 72 million compared to NIS 47 million in the same quarter of 2017, an increase of 53.2%.

<b>Bezeq International</b>	Q4 2018	Q4 2017	% change	FY 2018	FY 2017	% change
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	370	379	(2.4%)	1,391	1,537	(9.5%)
Operating profit	21	41	(48.8%)	116	174	(33.3%)
EBITDA*	81	76	6.6%	310	309	0.3%
EBITDA margin	21.9%	20.1%		22.3%	20.1%	
Net profit	13	31	(58.1%)	77	127	(39.4%)
Cash flows from operating activities <sup>1</sup>	106	82	29.3%	300	277	8.3%
Payments for investments	25	36	(30.6%)	127	142	(10.6%)
Free cash flow <sup>1</sup>	72	47	53.2%	138	138	0.0%

\* 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 2018 was an increase of NIS 36 million each.

<sup>1</sup> 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, "This month we announced two strategic moves for the future - the signing of a new employee agreement and the transition to broadcasting over an IP infrastructure that will provide a smart viewing experience at an unprecedented level in Israel. As part of this move, we will be launching this year with a unique line for television consumers in Israel. These moves coincide with the launch of yes ULTIMATE, to which more than 70% of the company's customers have already transitioned, and the launch of STING TV, which led to the stability of our customer base during 2018 compared with 2017."

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**In view of the significant trends and changes in the operating environment, yes updated its forecasts for the coming years. As a result, its financial statements for 2018 include a decrease in the value of its assets in the amount of NIS 1.1 billion, in accordance with the valuation received.**

**Revenues** in 2018 totaled NIS 1.47 billion compared to NIS 1.65 billion in 2017, a decrease of 10.7%. **Revenues** in the fourth quarter of 2018 were NIS 356 million, compared to NIS 367 million sequentially and NIS 404 million in the same quarter of 2017, a decrease of 3.0% and 11.9% respectively.

The decrease in revenues was primarily due to a reduction in the average number of subscribers and a decrease in pricing due to the transition to the "yes Ultimate" price plan.

**Adjusted Operating loss (excluding loss from impairment)** in 2018 totaled NIS 56 million compared to operating income of NIS 163 million in 2017. **Adjusted Operating loss** in the fourth quarter of 2018 was NIS 39 million, compared to operating income of NIS 27 million in the same quarter of 2017.

**Adjusted EBITDA (excluding loss from impairment)** in 2018 totaled NIS 267 million compared to NIS 448 million in 2017, a decrease of 40.4%. **Adjusted EBITDA** in the fourth quarter of 2018 was NIS 45 million, compared to NIS 99 million in the same quarter of 2017, a decrease of 54.5%.

**Adjusted Net loss (excluding loss from impairment)** in 2018 totaled NIS 48 million compared to NIS 244 million in 2017. **Adjusted Net loss** in the fourth quarter of 2018 was NIS 37 million, compared to net profit of NIS 11 million in the same quarter of 2017.

**Cash flow from operating activities** in 2018 totaled NIS 226 million compared to NIS 430 million in 2017, a decrease of 47.4%. **Cash flow from operating activities** in the fourth quarter of 2018 was NIS 46 million, compared to NIS 95 million in the same quarter of 2017, a decrease of 51.6%. The decrease in cash flow from operating activities was due to a reduction in profitability.

**ARPU** in the fourth quarter of 2018 was NIS 206, compared to NIS 210 sequentially and NIS 226 in the same quarter of 2017.

The number of yes **subscribers** in the fourth quarter of 2018 decreased by 3,000 after adjusting for the change in the formula for calculating business customers which resulted in a decrease of 7,000 business customers. The change was reported in the previous quarter and implemented in the fourth quarter of 2018. Total yes subscribers at December 31, 2018 were 574,000.

<b>yes - Financial data</b>	<u>Q4 2018</u>	<u>Q4 2018</u> excluding impairment <i>(NIS millions)</i>	<u>Q4 2017</u>	<u>% change</u>	<u>FY 2018</u>	<u>FY 2018</u> excluding impairment <i>(NIS millions)</i>	<u>FY 2017</u>	<u>% change</u>
Revenues	356	356	404	(11.9%)	1,473	1,473	1,650	(10.7%)
Operating profit	(1,139)	(39)	27		(1,156)	(56)	163	
EBITDA*	(1,055)	45	99	(54.5%)	(833)	267	448	(40.4%)
EBITDA margin	0.0%	12.6%	24.5%			18.1%	27.2%	
Net profit (loss)	(1,137)	(37)	11		(1,148)	(48)	(244)	(80.3%)
Cash flows from operating activities*	46	46	95	(51.6%)	226	226	430	(47.4%)
Payments for investments	82	82	53	54.7%	298	297	235	26.8%
Free cash flow <sup>1</sup>	(41)	(41)	42		(102)	(102)	196	

\* 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 2018 was an increase of NIS 31 million each.

<sup>1</sup> 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

<b>yes - KPIs</b>	<u>Q4 2018</u>	<u>Q3 2018</u>	<u>Q4 2017</u>
Number of subscribers (end of period, in thousands) <sup>1</sup>	574	584	587
Average revenue per user (ARPU, NIS) <sup>2</sup>	206	210	226
Churn rate (%) <sup>3</sup>	5.6%	5.1%	5.9%

<sup>1</sup> Subscriber – one household or small business customer. For a business customer with numerous set top boxes (such as a hotel, kibbutz or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined once every period. In the fourth quarter of 2018 the standardization formula was updated and, as a result, the number of subscribers decreased by 7,000. This is partially due to the fact that the average revenue per small business customer in the special offers (at least 100 customers per offer) increased in the past year as a result of the transfer of customers to packages that are richer in content at a higher price.

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

<sup>3</sup> 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.



# Press Release

## 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, March 28, 2019, at 4:00 PM Israel Time / 10:00 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](http://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, April 3, 2019. Participants can access and listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5900

Israel Phone Number: 03-925-5900





## 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](http://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

<b>Consolidated statements of income for the year ended December 31</b>			
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>NIS million</b>	<b>NIS million</b>	<b>NIS million</b>
<b>Revenues</b>	<b>9,321</b>	9,789	10,084
<b>Costs of activity</b>			
General and operating expenses	<b>3,379</b>	3,891	4,012
Salaries	<b>1,992</b>	2,005	2,012
Depreciation and amortization	<b>2,189</b>	1,715	1,739
Impairment loss	<b>1,675</b>	87	-
Other operating expenses (income), net	<b>634</b>	(19)	-
	<b>9,869</b>	7,679	7,763
Operating profit (loss)	<b>(548)</b>	2,110	2,321
<b>Financing expenses</b>			
Financing expenses	<b>516</b>	477	508
Financing income	<b>(81)</b>	(60)	(61)
Financing expenses, net	<b>435</b>	417	447
Profit (loss) after financing expenses	<b>(983)</b>	1,693	1,874
<b>Share in losses of equity-accounted investees</b>	<b>(3)</b>	(5)	(5)
Profit (loss) before income tax	<b>(986)</b>	1,688	1,869
<b>Income tax</b>	<b>80</b>	453	625
<b>Profit (loss) for the year attributable to shareholders of the Company</b>	<b>(1,066)</b>	1,235	1,244
<b>Earnings (loss) per share (NIS)</b>			
Basic and diluted earnings (loss) per share	<b>(0.39)</b>	0.45	0.45

## "Bezeq" The Israel Telecommunication Corp., Limited

### Consolidated Statements of Financial Position as at December 31

	2018	2017
<b>Assets</b>	<b>NIS million</b>	<b>NIS million</b>
Cash and cash equivalents	890	2,181
Investments	1,404	289
Trade receivables	1,773	1,915
Other receivables	267	270
Eurocom DBS, related party	-	43
Inventory	97	125
<b>Total current assets</b>	<b>4,431</b>	<b>4,823</b>
Trade and other receivables	470	493
Broadcasting rights, net of rights exercised	60	454
Right-of-use assets	1,504	-
Fixed assets	6,214	6,798
Intangible assets	1,919	2,768
Deferred tax assets	1,205	1,019
Deferred expenses and non-current investments	462	494
Investment property	58	-
<b>Total non-current assets</b>	<b>11,892</b>	<b>12,026</b>
<b>Total assets</b>	<b>16,323</b>	<b>16,849</b>



## "Bezeq" The Israel Telecommunication Corp., Limited

Consolidated Statements of Financial Position as at December 31 (Contd.)		
	2018	2017
	NIS million	NIS million
Debentures, loans and borrowings	1,542	1,632
Current maturities of liabilities for leases	445	-
Trade and other payables	1,690	1,699
Current tax liabilities	-	152
Employee benefits	581	280
Provisions	175	94
<b>Total current liabilities</b>	<b>4,433</b>	<b>3,857</b>
Loans and debentures	9,637	10,229
Liability for leases	1,106	-
Employee benefits	445	272
Derivatives and other liabilities	174	234
Deferred tax liabilities	56	73
Provisions	38	40
<b>Total non-current liabilities</b>	<b>11,456</b>	<b>10,848</b>
<b>Total liabilities</b>	<b>15,889</b>	<b>14,705</b>
<b>Total equity</b>	<b>434</b>	<b>2,144</b>
<b>Total liabilities and equity</b>	<b>16,323</b>	<b>16,849</b>



## "Bezeq" The Israel Telecommunication Corp., Limited

### Consolidated statements of cash flows for the year ended December 31

	2018	2017	2016
	NIS million	NIS million	NIS million
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b>	<b>(1,066)</b>	1,235	1,244
<b>Adjustments:</b>			
Depreciation and amortization	2,189	1,715	1,739
Impairment loss	1,675	87	-
Capital gain, net	(15)	(66)	(107)
Share in losses of equity-accounted investees	3	5	5
Financing expenses, net	445	426	474
Income tax expenses	80	453	625
Change in trade and other receivables	241	193	106
Change in inventory	(5)	(35)	(20)
Change in trade and other payables	(138)	10	(24)
Change in provisions	81	15	(19)
Change in employee benefits	489	(33)	(65)
Change in other liabilities	-	(34)	23
Net income tax paid	(467)	(446)	(455)
<b>Net cash from operating activities</b>	<b>3,512</b>	3,525	3,526
<b>Cash flow used for investing activities</b>			
Purchase of fixed assets	(1,216)	(1,131)	(1,193)
Investment in intangible assets and deferred expenses	(390)	(399)	(223)
Investment in deposits with banks and others	(2,338)	(276)	(917)
Proceeds from bank deposits and others	1,244	564	1,088
Proceeds from the sale of fixed assets	160	98	138
Receipts on account of sale of the Sakia property	155	-	-
Payment of betterment tax for the sale of the Sakia property	(80)	-	-
Permit fees and purchase tax for the Sakia property	(121)	-	-
Tax payment for shareholder's loans	-	-	(461)
Miscellaneous	34	(4)	1
<b>Net cash used in investment activities</b>	<b>(2,552)</b>	(1,148)	(1,567)



## "Bezeq" The Israel Telecommunication Corp., Limited

<b>Consolidated statements of cash flows for the year ended December 31 (Contd.)</b>			
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>NIS million</b>	<b>NIS million</b>	<b>NIS million</b>
<b>Cash flows used in financing activities</b>			
Issue of debentures and receipt of loans	<b>891</b>	2,517	2,161
Repayment of debentures and loans	<b>(1,567)</b>	(1,587)	(1,841)
Payments of principal and interest for leases	<b>(422)</b>	-	-
Dividends paid	<b>(686)</b>	(1,286)	(1,441)
Interest paid	<b>(421)</b>	(415)	(458)
Payment to Eurocom DBS for acquisition of shares and DBS loan	-	(61)	(256)
Miscellaneous	<b>(46)</b>	(12)	(31)
<b>Net cash used for financing activities</b>	<b>(2,251)</b>	(844)	(1,866)
<b>Increase (decrease) in cash and cash equivalents, net</b>	<b>(1,291)</b>	1,533	93
Cash and cash equivalents as at January 1	<b>2,181</b>	648	555
<b>Cash and cash equivalents as at the end of the year</b>	<b>890</b>	2,181	648

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

	Year ended December 31		
	2018	2017	2016
	NIS million	NIS million	NIS million
Provision for early retirement	559	23	96
Provision for legal claims	91	19	(4)
Capital gains (mainly disposal of real estate)	(1)	(66)	(107)
Profit from sale of an associate	(14)	-	-
Other expenses	(1)	5	15
Other operating expenses (income), net	634	(19)	-

## "Bezeq" The Israel Telecommunication Corp., Limited Effect of application of accounting standard IFRS 16

### Effect on the consolidated statement of financial position as at December 31, 2018

	In accordance with the previous policy	Change	In accordance with IFRS 16
	NIS million	NIS million	NIS million
Other receivables	319	(52)	267
Fixed assets	6,216	(2)	6,214
Intangible assets	1,920	(1)	1,919
Right-of-use assets	-	1,504	1,504
Trade and other payables	1,779	(89)	1,690
Current maturities of liabilities for leases	-	445	445
Long-term lease liabilities	-	1,106	1,106
Equity	447	(13)	434

### Effect on the consolidated statement of income for the year 2018

	In accordance with the previous policy	Change	In accordance with IFRS 16
	NIS million	NIS million	NIS million
General and operating expenses	3,791	(412)	3,379
Depreciation and amortization expenses	1,790	399	2,189
Loss from impairment	1,672	3	1,675
Operating loss	(558)	10	(548)
Financing expenses	409	26	435
Loss after financing expenses	(967)	(16)	(983)
Loss before income tax	(970)	(16)	(986)
Income tax	83	(3)	80
Net loss	(1,053)	(13)	(1,066)

**"Bezeq" The Israel Telecommunication Corp., Limited**  
**Effect of application of accounting standard IFRS 16 (Cont'd)**

**Effect on the consolidated statement of cash flow for the year 2018**

	In accordance with the previous policy	Change	In accordance with IFRS 16
	NIS million	NIS million	NIS million
Net cash from operating activities	3,115	397	3,512
Net cash used in investing activities	(2,577)	25	(2,552)
Net cash used for financing activities	(1,829)	(422)	(2,251)



## Press Release

### "Bezeq" The Israel Telecommunication Corp., Limited

#### Attribution of impairment loss to Group assets:

	Impairment
	NIS million
Broadcasting rights, net of rights exercised	403
Fixed assets	559
Intangible assets	106
Subscriber acquisition	29
Rights of use for leased assets	3
<b>Total impairment recognized in the statements of DBS</b>	<b>1,100</b>
Customer relations and branding	505
Goodwill	33
<b>Total impairment loss of assets</b>	<b>1,638</b>
Write-off of tax reserve attributed to customer relations and branding	(114)
<b>Total impairment loss of multi-channel television cash-generating unit after tax</b>	<b>1,524</b>