



## BEZEQ GROUP REPORTS THIRD QUARTER 2017 FINANCIAL RESULTS

Tel Aviv, Israel – November 30, 2017 – Bezeq – The Israel Telecommunication Corp., Ltd. (TASE: BEZQ), Israel's leading telecommunications provider, today announced its financial results for the three months ended September 30, 2017. Details regarding the investor conference call and webcast to be held today are included later in this press release.

<b>Bezeq Group (consolidated)</b>	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Revenues	2,415	2,510	(3.8%)
Operating profit	544	599	(9.2%)
EBITDA	980	1,041	(5.9%)
EBITDA margin	40.6%	41.5%	
Net profit	322	394	(18.3%)
Diluted EPS (NIS)	0.12	0.14	(14.3%)
Cash flow from operating activities	982	902	8.9%
Payments for investments	353	349	1.1%
Free cash flow <sup>1</sup>	677	577	17.3%
Net debt/EBITDA (end of period) <sup>2</sup>	2.29	2.31	

<sup>1</sup> Free cash flow is defined as cash flow from operating activities less net payments for investments.

<sup>2</sup> EBITDA in this calculation refers to the trailing twelve months.

**David Granot, Bezeq's Acting Chairman**, stated, "The number of our wholesale broadband customers recently passed the half-million mark, after growing by more than 40,000 subscribers in the last quarter – the highest single-quarter growth since the start of 2016. This figure joins news of almost 200,000 TV subscribers recruited by the new market players. These data reflect the ongoing competition seen in the Israeli telecom market, and demand continued efforts to remove the structural separation imposed on Bezeq. Such removal will clear barriers currently preventing full operational efficiency, and enable a significant reduction in communication costs for households and businesses in Israel."

**Yali Rothenberg, CPA, Bezeq Group's Chief Financial Officer** commented, "The Group companies continue to post strong financial results over the competition, and our year-to-date results are in-line with the guidance we provided to the market. In the short time since I came on board, I am impressed by Bezeq's robust financial capacity, competitive assets, and state-of-the-art telecom infrastructures, all of which translate into tremendous potential for enhanced service offerings to our customers and the vast majority of the Israeli public."

**Bezeq Group Results (Consolidated)**

**Revenues** in the third quarter of 2017 were NIS 2.42 billion, compared to NIS 2.51 billion in the same quarter of 2016, a decrease of 3.8%. The decrease was due to lower revenues in all key group segments.

**Salary expenses** in the third quarter of 2017 were NIS 502 million, compared to NIS 501 million in the same quarter of 2016, an increase of 0.2%.

**Operating expenses** in the third quarter of 2017 were NIS 956 million, compared to NIS 994 million in the same quarter of 2016, a decrease of 3.8%. The decrease in operating expenses was due to a reduction in most of the expense categories of the group, which was influenced by the early adoption of accounting standard IFRS 15.

**Other operating income, net** in the third quarter of 2017 amounted to NIS 23 million compared to NIS 26 million in the same quarter of 2016. The decrease in other operating income was due to an increase in expenses as a result of a financial sanction imposed by the Ministry of Communications in the amount of NIS 11 million as well as an increase in provisions for legal claims, offset by an increase in capital gains from the sale of real estate at Bezeq Fixed-Line.

**Depreciation expenses** in the third quarter of 2017 were NIS 436 million, compared to NIS 442 million in the same quarter of 2016, a decrease of 1.4%. The decrease in depreciation expenses was due to a reduction in the ongoing depreciation expenses of the group. In addition, there was a decrease in the amortization of excess costs recorded in connection with the increase to a controlling stake in yes, partially offset by an increase in depreciation expenses in the cellular segment due to the early adoption of accounting standard IFRS 15.

**Operating profit** in the third quarter of 2017 was NIS 544 million compared to NIS 599 million in the same quarter of 2016, a decrease of 9.2%. **EBITDA** in the third quarter of 2017 was NIS 980 million (EBITDA margin of 40.6%) compared to NIS 1.04 billion (EBITDA margin of 41.5%) in the same quarter of 2016, a decrease of 5.9%.

**Financing expenses** in the third quarter of 2017 were NIS 94 million compared to NIS 104 million in the same quarter of 2016, a decrease of 9.6%. The decrease in financing expenses was primarily due to lower financing expenses at yes partially offset by an update in the estimated fair value of advanced payments made by the Company to Eurocom DBS of NIS 13 million.

**Tax expenses** in the third quarter of 2017 were NIS 128 million compared to NIS 99 million in the same quarter of 2016, an increase of 29.3%. The increase in tax expenses was due a decrease in tax expenses in the third quarter of 2016 as a result of tax adjustments in respect of prior years as well as an increase in nondeductible expenses in the third quarter of 2017 at Bezeq Fixed-Line.

**Net profit** in the third quarter of 2017 was NIS 322 million compared to NIS 394 million in the same quarter of 2016, a decrease of 18.3%. The decrease in net profit was due to the aforementioned reduction in revenues and increase in tax expenses.



**Cash flow from operating activities** in the third quarter of 2017 was NIS 982 million compared to NIS 902 million in the same quarter of 2016, an increase of 8.9%. The increase in cash flow from operating activities was due to changes in working capital.

**Payments for investments (Capex)** in the third quarter of 2017 was NIS 353 million compared to NIS 349 million in the same quarter of 2016, an increase of 1.1%.

**Free cash flow** in the third quarter of 2017 was NIS 677 million compared to NIS 577 million in the same quarter of 2016, an increase of 17.3%. The increase in free cash flow was due to the aforementioned increase in cash flow from operating activities as well as an increase in proceeds from the sale of real estate due to timing differences.

**Net financial debt** of the Group was NIS 8.97 billion as of September 30, 2017 compared to NIS 9.40 billion as of September 30, 2016. As of September 30, 2017, the Group's net financial debt to EBITDA ratio was 2.29, compared to 2.31 as of September 30, 2016.

## 2017 Outlook

Based on the information available to the Group today, below is the Bezeq Group's outlook for 2017, as published in the Company's annual report as of December 31, 2016:

Net profit attributable to shareholders:	Approximately NIS 1.4 billion
EBITDA:	Approximately NIS 4.0 billion
Free cash flow:	Approximately NIS 2.0 billion

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

- a. The forecasts do not include the effects, insofar as there are any, of a provision for the early retirement of employees and/or the signing of a collective labor agreement, the realization of Company rights in the real estate property "Sakia" or the cancellation of the Group's corporate/structural separation including the effects of the merger with yes.
- b. The forecasts are based, among other factors, on the Group's assessments concerning the competition in the communications market and the regulation of the industry, as well as the economic situation in Israel, and consequently, the Group's ability to implement its plans for 2017. In addition, the forecasts include the positive effect of the early adoption of accounting standard IFRS 15, beginning January 1, 2017, on EBITDA in the amount of NIS 120-160 million and on net profits in the amount of NIS 60-90 million. Actual results may differ from those assessments, taking into account changes in the above mentioned factors and in the business conditions as well as in the impact of regulatory decisions, technological changes, developments in the communications market, and realization of risk factors detailed in the Group's periodic report for the year 2016.



## Bezeq Fixed-Line Results

**Stella Handler, Bezeq CEO**, commented, "We continue to lead the Israeli telecom market in the quality of our network and innovative services. During the quarter, we generated revenues through new growth drivers, which helped mitigate the impact of growing competition on our results. With exponential growth in uses of the Internet, it is clear today more than ever that fixed-line infrastructures are critical to economic growth on the national scale. A significant part of this growth is due to new television services such as Netflix, CellcomTV, and Partner.

Thanks to our investment in state-of-the-art infrastructure, hundreds of thousands of households are paying less for better television and Internet services. Working with our competitors, Bezeq serves more than 500,000 households through the wholesale market over our own infrastructure. Our products, outstanding services, and ongoing investments to provide cutting-edge services, including cloud-based and big-data services, give us a true competitive advantage that will allow us to retain our leadership well into the future."

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**Revenues** in the third quarter of 2017 were NIS 1.06 billion, compared to NIS 1.09 billion in the same quarter of 2016, a decrease of 2.6%. Total revenues were impacted by the decrease in telephony and transmission revenues, which were partially offset by higher revenues from broadband Internet services.

**Revenues from telephony services** in the third quarter of 2017 were NIS 345 million compared to NIS 375 million in the same quarter of 2016, a decrease of 8.0%. The decrease in telephony revenues was due to a reduction of 3.4% in the average revenue per line as well as a decrease of 3.6% in the number of access lines.

**Revenues from broadband Internet services (retail and wholesale)** in the third quarter of 2017 were NIS 413 million compared to NIS 399 million in the same quarter of 2016, an increase of 3.5%. The increase in revenues from broadband Internet services was primarily due to continued growth in the number of Internet lines, which reached 1.61 million subscribers, coupled with an increase in revenues from new services and activities.

**Revenues from transmission and data communication services** in the third quarter of 2017 were NIS 247 million compared to NIS 261 million in the same quarter of 2016, a decrease of 5.4%. The decrease was due to a reduction in transmission revenues from telecommunication operators, partially offset by an increase in advanced services for businesses.

**Operating expenses** in the third quarter of 2017 were NIS 183 million, in-line with the corresponding quarter of 2016.

**Salary expenses** in the third quarter of 2017 were NIS 224 million compared to NIS 225 million in the same quarter of 2016, a decrease of 0.4%.



**Other operating income (net)** in the third quarter of 2017 amounted to NIS 24 million compared to NIS 26 million in the same quarter of 2016, a decrease of 7.7%. The decrease in other operating income was due to an increase in expenses as a result of a financial sanction imposed by the Ministry of Communications in the amount of NIS 11 million as well as an increase in provisions for legal claims, offset by an increase in capital gains from the sale of real estate.

**Operating profit** in the third quarter of 2017 totaled NIS 492 million compared to NIS 519 million in the same quarter of 2016, a decrease of 5.2%. **EBITDA** in the third quarter of 2017 totaled NIS 678 million (EBITDA margin of 63.9%) compared to NIS 707 million (EBITDA margin of 64.9%) in the same quarter of 2016, a decrease of 4.1%.

**Financing expenses** in the third quarter of 2017 were NIS 107 million compared to NIS 93 million in the same quarter of 2016, an increase of 15.1%. The increase in financing expenses was primarily due to an update in the estimated fair value of advanced payments made by the Company to Eurocom DBS of NIS 13 million.

**Tax expenses** in the third quarter of 2017 were NIS 109 million compared to NIS 83 million in the same quarter of 2016, an increase of 31.3%. The increase in tax expenses was due a decrease in tax expenses in the third quarter of 2016 as a result of tax adjustments in respect of prior years as well as an increase in nondeductible expenses in the third quarter of 2017.

**Net profit** in the third quarter of 2017 totaled NIS 276 million compared to NIS 343 million in the same quarter of 2016, a decrease of 19.5%. The decrease in net profit was due to the aforementioned decrease in revenues and increase in financing and tax expenses.

**Cash flow from operating activities** in the third quarter of 2017 was NIS 573 million compared to NIS 526 million in the same quarter of 2016, an increase of 8.9%. The increase in cash flow from operating activities was due to changes in working capital.

**Capex** in the third quarter of 2017 was NIS 170 million compared to NIS 207 million in the same quarter of 2016, a decrease of 17.9%. The decrease in capex was primarily due to timing differences.

**Free cash flow** in the third quarter of 2017 was NIS 449 million compared to NIS 341 million in the same quarter of 2016, an increase of 31.7%. The increase in free cash flow was due to the aforementioned increase in cash flow from operating activities as well as a decrease in investments.

In the third quarter of 2017, the Company added 15,000 **broadband Internet lines (retail and wholesale)**, totaling 1.61 million. The number of wholesale broadband Internet lines continued to grow and reached 484,000 lines, representing a sequential increase of 40,000 lines. During the past year, the number of wholesale lines grew by 137,000.

During the third quarter of 2017, **average broadband speeds** reached 49.5 Mbps compared to 47.2 Mbps sequentially, and 41.8 Mbps in the third quarter of 2016, representing a year-over-year increase of 18.4%.



**Bezeq**

## Press Release

**Average revenue per Internet subscriber (ARPU - retail)** in the third quarter of 2017 was NIS 91, in-line sequentially and up from NIS 89 in the third quarter of 2016.

The number of **telephony access lines** totaled 2.061 million at the end of September 2017, compared to 2.077 million sequentially and 2.137 million in the third quarter of 2016.

**Average revenue per line (ARPL)** in the third quarter of 2017 totaled NIS 56, compared to NIS 55 sequentially and NIS 58 in the third quarter of 2016.

<b>Bezeq Fixed-Line - Financial data</b>	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Total revenues	1,061	1,089	(2.6%)
Telephony revenues	345	375	(8.0%)
Broadband Internet revenues	413	399	3.5%
Transmission and data revenues	247	261	(5.4%)
Other revenues	56	54	3.7%
Operating profit	492	519	(5.2%)
EBITDA	678	707	(4.1%)
EBITDA margin	63.9%	64.9%	
Net profit <sup>1</sup>	276	343	(19.5%)
Cash flows from operating activities	573	526	8.9%
Payments for investments	170	207	(17.9%)
Free cash flow <sup>2</sup>	449	341	31.7%

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

<sup>2</sup> Free cash flow is defined as cash flows from operating activities less net payments for investments.

<b>Bezeq Fixed-Line - KPIs</b>	<u>Q3 2017</u>	<u>Q2 2017</u>	<u>Q3 2016</u>
Active subscriber lines (in thousands) <sup>1</sup>	2,061	2,077	2,137
Average monthly revenue per line (NIS) <sup>2</sup>	56	55	58
Outgoing minutes (millions)	1,134	1,100	1,297
Incoming minutes (millions)	1,266	1,220	1,383
Churn rate (%) <sup>3</sup>	2.4%	2.4%	2.6%
Total broadband Internet lines (in thousands) <sup>4</sup>	1,608	1,593	1,539
Of which: Wholesale broadband Internet lines (in thousands) <sup>4</sup>	484	444	347
Average monthly revenue per broadband Internet subscriber (NIS) - Retail	91	91	89
Average broadband speed per subscriber (end of period, Mbps)	49.5	47.2	41.8

<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). Active subscriber lines are presented at the end of each period.

<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 continue to successfully implement our strategic plan, as can be seen in the continued growth of our subscriber base. We added 65,000 subscribers in the quarter, and 156,000 subscribers since the start of the year. This growth has stemmed the erosion in service revenues, even improving Pelephone's revenues compared to previous quarters.

Our growth is made possible by an extensive network of distribution channels, and increased collaboration with leading retailers in Israel.

We are the only company to deploy and roll out the MIMO4\*4 and Beamforming technologies on a national scale, maintaining leadership as the fastest and most advanced cellular network in Israel.

We have invested in improving our roaming service in terms of user experience and the range of available plans and destinations. In the past quarter, we reaped the rewards of this investment, posting the largest number of users on the Company's roaming services."

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**Total revenues** in the third quarter of 2017 were NIS 635 million compared to NIS 632 million sequentially and NIS 649 million in the same quarter of 2016, a quarter-over-quarter increase of 0.5% and a year-over-year decrease of 2.2%.

**Revenues from cellular services** in the third quarter of 2017 were NIS 461 million compared to NIS 449 million sequentially and NIS 468 million in the same quarter of 2016, a quarter-over-quarter increase of 2.7% and a year-over-year decrease of 1.5%. The increase in revenues from cellular services compared to the sequential quarter was due to an increase in subscribers as well as in revenues from roaming services. The growth in subscribers has stemmed the erosion in service revenues.

**Revenues from equipment sales** in the third quarter of 2017 were NIS 174 million, compared to NIS 183 million sequentially and NIS 181 in the same quarter of 2016, a decrease of 4.9% and 3.9%, respectively. The decrease in revenues from equipment sales was primarily due to the cancellation of purchase tax on imported cellular handsets that led to a reduction in prices as well as a decrease in handsets sold.

**Operating expenses** in the third quarter of 2017 were NIS 613 million compared to NIS 602 million sequentially and NIS 622 million in the same quarter of 2016, a quarter-over-quarter increase of 1.8% and a year-over-year decrease of 1.4%. The decrease in operating expenses compared to the corresponding quarter was primarily due to a reduction in dealer commissions that were capitalized due to the early adoption of accounting standard IFRS 15 as well as a decrease in the cost of sales of cellular handsets, engineering expenses, and continued efficiency measures.

**Operating profit** in the third quarter of 2017 was NIS 22 million, compared to NIS 30 million sequentially and NIS 27 in the same quarter of 2016, a decrease of 26.7% and 18.5%, respectively. The sequential decrease in operating profit was primarily due to one-time estimates that were

adjusted in the previous quarter which were partially offset by an increase in service revenues. The year-over-year decrease was primarily due to a reduction in revenues, partially offset by a reduction in dealer commissions that were capitalized due to the early adoption of accounting standard IFRS 15, partially mitigated by an increase in depreciation expenses.

**EBITDA** in the third quarter of 2017 was NIS 122 million (EBITDA margin of 19.2%), compared to NIS 129 million (EBITDA margin of 20.4%) sequentially and NIS 119 million (EBITDA margin of 18.3%) in the same quarter of 2016, a quarter-over-quarter decrease of 5.4% and a year-over-year increase of 2.5%. The sequential decrease in EBITDA, despite the increase in revenues, was primarily due to one-time estimates that were adjusted in the previous quarter. The year-over-year increase was primarily due to a reduction in dealer commissions that were capitalized due to the early adoption of accounting standard IFRS 15.

**Net profit** in the third quarter of 2017 was NIS 24 million compared to NIS 34 million sequentially and NIS 32 million in the same quarter of 2016, a decrease of 29.4% and 25.0% respectively. The sequential decrease in net profit was primarily due to one-time estimates that were adjusted in the previous quarter partially offset by an increase in service revenues.

**Cash flow from operating activities** in the third quarter of 2017 was NIS 209 million compared to NIS 193 million sequentially and NIS 152 million in the same quarter of 2016, an increase of 8.3% and 37.5% respectively. The increase in cash flow from operating activities compared to the previous and corresponding quarters was due to an improvement in working capital.

The number of **Pelephone subscribers** increased by 65,000 in the third quarter of 2017 and reached 2.475 million as of September 30, 2017.

**ARPU** in the third quarter of 2017 was NIS 63 compared to NIS 61 sequentially and NIS 68 in the same quarter of 2016.

<b>Telephone - Financial data</b>	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Total revenues	635	649	(2.2%)
Service revenues	461	468	(1.5%)
Equipment revenues	174	181	(3.9%)
Operating profit	22	27	(18.5%)
EBITDA	122	119	2.5%
EBITDA margin	19.2%	18.3%	
Net profit	24	32	(25.0%)
Cash flows from operating activities	209	152	37.5%
Payments for investments	78	64	21.9%
Free cash flow <sup>1</sup>	131	88	48.9%

<sup>1</sup> Free cash flow is defined as cash flows from operating activities less net payments for investments.

<b>Telephone - KPIs</b>	<u>Q3 2017</u>	<u>Q2 2017</u>	<u>Q3 2016</u>
Total subscribers (end of period, in thousands) <sup>1</sup>	2,475	2,410	2,348
Average revenue per user (ARPU, NIS) <sup>2</sup>	63	61	68
Churn rate <sup>3</sup>	6.8%	6.1%	6.1%

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

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

<sup>3</sup> Churn rate is calculated according to the proportion of subscribers who have disconnected from the Company's services and subscribers who have become inactive during the period, divided by the total number of average active subscribers during the period. The churn rate in Q2 2017 does not include the effect of the disconnection of 83 thousand CDMA subscribers at the time of the closing of the network. In addition, Q2 2016 does not include the write-off of CDMA subscribers.



## Bezeq International Results

**Moti Elmaliach, CEO of Bezeq International**, said, “Our focus and significant growth in promoting telecom solutions for businesses offset the continuing erosion of the international calls segment, especially in light of intense competition across our various markets. We continue to focus on innovation and expand our service offerings in cyber-protection for households and businesses.”

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**Revenues** in the third quarter of 2017 reached NIS 367 million compared to NIS 384 million in the same quarter of 2016, a decrease of 4.4%. The decrease in revenues was primarily due to the significant decrease in the international calls and hubbing segments, which also influenced profitability metrics.

**Operating profit** in the third quarter of 2017 was NIS 39 million compared to NIS 45 million in the same quarter of 2016, a decrease of 13.3%. **EBITDA** in the third quarter of 2017 was NIS 73 million (EBITDA margin of 19.9%), compared to NIS 80 million (EBITDA margin of 20.8%) in the same quarter of 2016, a decrease of 8.8%. **Net profit** in the third quarter of 2017 was NIS 27 million, compared to NIS 33 million in the same quarter of 2016, a decrease of 18.2%.

**Cash flow from operating activities** in the third quarter of 2017 was NIS 74 million, compared to NIS 65 million in the same quarter of 2016, an increase of 13.8%.

**Free cash flow** in the third quarter of 2017 was NIS 45 million compared to NIS 41 million in the same quarter of 2016, an increase of 9.8%. The increase in free cash flow was due to changes in working capital.

<b>Bezeq International</b>	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Revenues	367	384	(4.4%)
Operating profit	39	45	(13.3%)
EBITDA	73	80	(8.8%)
EBITDA margin	19.9%	20.8%	
Net profit	27	33	(18.2%)
Cash flows from operating activities	74	65	13.8%
Payments for investments	31	24	29.2%
Free cash flow <sup>1</sup>	45	41	9.8%

<sup>1</sup> Free cash flow is defined as cash flows from operating activities less net payments for investments.

## yes Results

**Ron Eilon, CEO of yes,** stated, “We continue to lead the Israeli multi-channel television market with our premium services, providing a level of product innovation never before seen in the country. After bringing 4K broadcasting to Israel, in this quarter we also introduced a smart remote with voice-recognition capabilities. In online television, thousands of early-adopters have already connected to our pioneering STING TV service, which appeals to digitally-connected consumers with a full range of local and international content.”

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**Revenues** in the third quarter of 2017 were NIS 406 million compared to NIS 434 million in the same quarter of 2016, a decrease of 6.5%. The decrease in revenues was primarily due to a reduction in the average number of subscribers as well as a decrease in the average revenue per subscriber.

**Operating profit** in the third quarter of 2017 was NIS 35 million compared to NIS 62 million in the same quarter of 2016, a decrease of 43.5%. The decrease in operating profit was primarily due to a decrease in revenues.

**EBITDA** in the third quarter of 2017 was NIS 107 million (EBITDA margin of 26.4%), compared to NIS 137 million (EBITDA margin of 31.6%) in the same quarter of 2016, a decrease of 21.9%.

**Financing expenses/income** in the third quarter of 2017 amounted to financing income of NIS 1 million compared to financing expenses of NIS 26 million in the same quarter of 2016. Financing expenses were influenced by a change in the fair value of financial assets as well as income from linkage differentials in respect of debentures.

**Profit before financing income from shareholders and taxes** in the third quarter of 2017 was NIS 36 million, in-line with the same quarter of 2016. Profits before financing income from shareholders and taxes were influenced by the decrease in operating profit in the current quarter offset by the decrease in financing expenses compared to the corresponding quarter.

**Net loss** in the third quarter of 2017 was NIS 123 million compared to NIS 142 million in the same quarter of 2016. The decrease in net loss was primarily due to the reduction in financing expenses from shareholder loans due to the conversion of shareholder loans to equity, offset by the complete reduction in the tax asset. Excluding the adjustment for the decrease in the tax asset, net profit in the third quarter of 2017 was NIS 35 million.

**Cash flow from operating activities** in the third quarter of 2017 was NIS 115 million compared to NIS 154 million in the same quarter of 2016, a decrease of 25.3%. The decrease was primarily due to a decrease in profitability.

The number of yes **subscribers** in the third quarter of 2017 decreased by 6,000 to a total of 597,000 subscribers.



# Press Release

ARPU in the third quarter of 2017 was NIS 226 compared to NIS 233 in the same quarter of 2016, a decrease of 3.0%.

<b>yes - Financial data</b>	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>% change</u>
	<i>(NIS millions)</i>		
Revenues	406	434	(6.5%)
Operating profit	35	62	(43.5%)
EBITDA	107	137	(21.9%)
EBITDA margin	26.4%	31.6%	
Profit before finance expenses to shareholders and taxes	36	36	0.0%
Net profit (loss)	(123)	(142)	(13.4%)
Cash flows from operating activities	115	154	(25.3%)
Payments for investments	69	51	35.3%
Free cash flow <sup>1</sup>	46	104	(55.8%)

<sup>1</sup> Free cash flow is defined as cash flows from operating activities less net payments for investments.

<b>yes - KPIs</b>	<u>Q3 2017</u>	<u>Q2 2017</u>	<u>Q3 2016</u>
Number of subscribers (end of period, in thousands) <sup>1</sup>	597	603	618
Average revenue per user (ARPU, NIS) <sup>2</sup>	226	229	233
Churn rate (%) <sup>3</sup>	4.8%	3.8%	4.5%

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

<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. David Granot, Bezeq's Acting Chairman, and Mr. Yali Rothenberg, Bezeq's Chief Financial Officer on Thursday, November 30, 2017, at 4:00 PM Israel Time / 9:00 AM Eastern Time. Participants may join the live conference call by dialing:

International Phone Number: + 972-3-918-0610

Israel Phone Number: 03-918-0610

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, December 6, 2017. Participants can access and listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5937

Israel Phone Number: 03-925-5937



## 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, and other data communications; satellite-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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# Press Release

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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Revenues</b>	<b>7,331</b>	<b>7,580</b>	<b>2,415</b>	<b>2,510</b>	<b>10,084</b>
<b>Costs of activity</b>					
General and operating expenses	<b>2,888</b>	2,984	<b>956</b>	994	4,012
Salaries	<b>1,500</b>	1,509	<b>502</b>	501	2,012
Depreciation and amortization	<b>1,288</b>	1,331	<b>436</b>	442	1,739
Other operating income, net	<b>(28)</b>	(33)	<b>(23)</b>	(26)	-
	<b>5,648</b>	5,791	<b>1,871</b>	1,911	7,763
<b>Operating income</b>	<b>1,683</b>	1,789	<b>544</b>	599	2,321
<b>Financing expenses (income)</b>					
Financing expenses	<b>358</b>	360	<b>112</b>	119	508
Financing income	<b>(61)</b>	(49)	<b>(18)</b>	(15)	(61)
Financing expenses, net	<b>297</b>	311	<b>94</b>	104	447
<b>Profit after financing expenses, net</b>	<b>1,386</b>	1,478	<b>450</b>	495	1,874
<b>Share in losses of equity-accounted investees</b>	<b>(4)</b>	(4)	-	(2)	(5)
<b>Profit before income tax</b>	<b>1,382</b>	1,474	<b>450</b>	493	1,869
<b>Income tax</b>	<b>352</b>	415	<b>128</b>	99	625
<b>Profit for the period</b>	<b>1,030</b>	1,059	<b>322</b>	394	1,244
<b>Basic and diluted earnings per share</b>	<b>0.37</b>	0.38	<b>0.12</b>	0.14	0.45



## Press Release

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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gains from the sale of fixed assets (mainly real estate)	(64)	(62)	(45)	(22)	(107)
Provision for early retirement	15	18	3	3	96
Others	21	11	19	(7)	11
Total other operating income, net	(28)	(33)	(23)	(26)	-



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

	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	2,471	938	648
Investments	94	908	586
Trade receivables	1,948	1,998	2,000
Other receivables	294	191	219
Eurocom DBS Ltd., related party	43	29	-
Inventory	101	96	106
<b>Total current assets</b>	<b>4,951</b>	<b>4,160</b>	<b>3,559</b>
Trade and other receivables	520	641	644
Broadcasting rights, net of rights exercised	457	450	432
Fixed assets	6,817	6,840	6,876
Intangible assets	2,894	3,121	3,047
Deferred tax assets	1,014	1,103	1,007
Deferred expenses and non-current investments	489	388	382
<b>Total non-current assets</b>	<b>12,191</b>	<b>12,543</b>	<b>12,388</b>
<b>Total assets</b>	<b>17,142</b>	<b>16,703</b>	<b>15,947</b>

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

	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)	December 31, 2016 (Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	555	2,135	1,825
Trade and other payables	1,807	1,599	1,610
Current tax liabilities	118	171	104
Liability to Eurocom DBS Ltd., related party	-	6	32
Employee benefits	251	280	315
Provisions	94	87	80
Dividend payable	708	665	-
<b>Total current liabilities</b>	<b>3,533</b>	<b>4,943</b>	<b>3,966</b>
Loans and debentures	10,978	9,111	9,128
Employee benefits	260	237	258
Derivatives and other liabilities	292	257	244
Deferred tax liabilities	104	81	101
Provisions	48	47	47
<b>Total non-current liabilities</b>	<b>11,682</b>	<b>9,733</b>	<b>9,778</b>
<b>Total liabilities</b>	<b>15,215</b>	<b>14,676</b>	<b>13,744</b>
<b>Total equity</b>	<b>1,927</b>	<b>2,027</b>	<b>2,203</b>
<b>Total liabilities and equity</b>	<b>17,142</b>	<b>16,703</b>	<b>15,947</b>

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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Cash flows from operating activities</b>					
Profit for the period	1,030	1,059	322	394	1,244
Adjustments:					
Depreciation and amortization	1,288	1,331	436	442	1,739
Share in losses of equity-accounted investees	4	4	-	2	5
Financing expenses, net	321	335	94	115	474
Capital gain, net	(64)	(62)	(45)	(22)	(107)
Income tax expenses	352	415	128	99	625
Change in trade and other receivables	121	116	105	53	106
Change in inventory	(10)	7	2	2	(20)
Change in trade and other payables	64	(110)	103	(12)	(24)
Change in provisions	15	(12)	16	(3)	(19)
Change in employee benefits	(62)	(100)	(65)	(92)	(65)
Change in other liabilities	(30)	8	4	16	23
Net income tax paid	(346)	(297)	(118)	(92)	(455)
<b>Net cash from operating activities</b>	<b>2,683</b>	<b>2,694</b>	<b>982</b>	<b>902</b>	<b>3,526</b>



# Press Release

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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Cash flow used for investing activities</b>					
Purchase of fixed assets	(835)	(901)	(255)	(290)	(1,193)
Investment in intangible assets and deferred expenses	(304)	(180)	(98)	(59)	(223)
Investment in deposits with banks and others	(76)	(867)	(76)	-	(917)
Disposal of deposits with banks and others	558	711	-	-	1,088
Proceeds from the sale of fixed assets	76	122	48	24	138
Tax payment for shareholder's loans	-	(461)	-	(461)	(461)
Miscellaneous	(6)	1	(7)	2	1
<b>Net cash used in investing activities</b>	<b>(587)</b>	<b>(1,575)</b>	<b>(388)</b>	<b>(784)</b>	<b>(1,567)</b>



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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Cash flows in financing activities</b>					
Issue of debentures and receipt of loans	1,917	1,661	500	-	2,161
Repayment of debentures and loans	(1,325)	(1,085)	(456)	(279)	(1,841)
Dividend paid	(578)	(776)	-	-	(1,441)
Interest paid	(217)	(256)	(18)	(32)	(458)
Payment to Eurocom DBS for acquisition of DBS loans and shares	(61)	(256)	-	(198)	(256)
Miscellaneous	(9)	(24)	(3)	(9)	(31)
<b>Net cash from (used in) financing activities</b>	<b>(273)</b>	<b>(736)</b>	<b>23</b>	<b>(518)</b>	<b>(1,866)</b>
<b>Increase (decrease) in cash and cash equivalents, net</b>	<b>1,823</b>	<b>383</b>	<b>617</b>	<b>(400)</b>	<b>93</b>
Cash and cash equivalents at beginning of period	648	555	1,854	1,338	555
<b>Cash and cash equivalents at end of period</b>	<b>2,471</b>	<b>938</b>	<b>2,471</b>	<b>938</b>	<b>648</b>



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

### Effect of application of accounting standard IFRS 15 on the consolidated interim statement of income

	Nine months ended September 30, 2017			Three months ended September 30, 2017		
	In accordance with the previous policy	Change	In accordance with IFRS 15	In accordance with the previous policy	Change	In accordance with IFRS 15
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
General and operating expenses	2,989	(101)	<b>2,888</b>	993	(37)	<b>956</b>
Salaries	1,525	(25)	<b>1,500</b>	511	(9)	<b>502</b>
Depreciation and amortization expenses	1,255	33	<b>1,288</b>	419	17	<b>436</b>
Operating income	1,590	93	<b>1,683</b>	515	29	<b>544</b>
Profit after financing expenses	1,293	93	<b>1,386</b>	421	29	<b>450</b>
Profit before income tax	1,289	93	<b>1,382</b>	421	29	<b>450</b>
Income tax	330	22	<b>352</b>	121	7	<b>128</b>
Profit for the period	959	71	<b>1,030</b>	300	22	<b>322</b>