Bezeq

Press Release

BEZEQ GROUP REPORTS FOURTH QUARTER & FULL YEAR 2017 FINANCIAL RESULTS

Tel Aviv, Israel – March 29, 2018 – 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, 2017. Details regarding the investor conference call and webcast to be held today are included later in this press release.

Bezeq Group (consolidated)	Q4 2017	Q4 2016	% change	FY 2017	FY 2016	% change
	(NIS millions)			*(NIS millions)*		
Revenues	2,458	2,504	(1.8%)	9,789	10,084	(2.9%)
Operating profit	427	532	(19.7%)	2,110	2,321	(9.1%)
EBITDA	854	940	(9.1%)	3,825	4,060	(5.8%)
EBITDA margin	34.7%	37.5%		39.1%	40.3%	
Net profit	205	185	10.8%	1,235	1,244	(0.7%)
Diluted EPS (NIS)	0.07	0.07	0.0%	0.45	0.45	0.0%
Cash flow from operating activities	842	832	1.2%	3,525	3,526	0.0%
Payments for investments	391	335	16.7%	1,530	1,416	8.1%
Free cash flow [1]	473	513	(7.8%)	2,093	2,248	(6.9%)
Net debt/EBITDA (end of period)	2.46	2.39		2.46	2.39	

[1] Free cash flow is defined as cash flow from operating activities less net payments for investments.

David Granot, Bezeq's Interim Chairman, stated, "Diversification across all telecom segments, focus on providing the highest-quality products and services, along with outstanding customer service, have enabled us to maintain our leadership position in the Israeli telecom market. Our fixed-line operations generated new sources of revenue over the years by developing innovative services for the residential and commercial markets. At the same time, Pelephone managed to stem the erosion of its revenues, while also posting growth across all key metrics. The Company is leading the market in new subscriber recruitment and maintaining profitability in a fiercely competitive cellular market. yes launched its IPTV product – Sting to helping address heightened competition. We are working on consolidating certain activities of the subsidiaries to create synergies that could lead to a significant reduction in expenses, even before the structural separation is removed."

Granot further stated, "The present period is undoubtedly challenging for the Bezeq Group, not only from the commercial and competitive side, but also in terms of concerns about our corporate governance. The effects of the ongoing investigations, including matters related to Bezeq as well as the Company's officers and its ownership structure, are numerous and complex, and Bezeq's Board of Directors views the matters with all due seriousness. In recent months, many actions have been taken to improve Bezeq's corporate governance, and we will continue these efforts diligently, upholding the interests of all of Bezeq stakeholders. Bezeq's management and its thousands of employees are working with admirable success to allow the Company to operate without interruption.

Our results for 2017 prove beyond doubt that, in contrast to various statements, the wholesale market reform is working successfully and competition across the entire telecom industry is greater. Cancelling the structural separation in the Bezeq Group would not only not change this trend, it would contribute to further price decreases for end-consumers. In coordination with the regulatory authorities, we will continue to take all actions necessary to serve all of Bezeq's stakeholders, while stressing the value to our customers."

Yali Rothenberg, CPA, Bezeq Group's Chief Financial Officer commented, "Our financial results for 2017 reflected the increasing competition in all the Group segments while, at the same time, demonstrated the strong financial profile and competitive assets of the Group companies regarding service, ownership of advanced infrastructures and reliance on professional and skilled employees. The outlook for the coming year reflects the preparation and adaptation by all the Group companies of the long-term vision that is required for us to continue to be the leading and most significant communications group in Israel in the era of rapid technological and structural changes, while continuing to bring value to our shareholders over time."

Bezeq Group Results (Consolidated)

Revenues in 2017 totaled NIS 9.80 billion compared to NIS 10.08 billion in 2016, a decrease of 2.9%. Revenues in the fourth quarter of 2017 were NIS 2.46 billion, compared to NIS 2.50 billion in the same quarter of 2016, a decrease of 1.8%.
The decrease in revenues was due to lower revenues in all key group segments.

Salary expenses in 2017 totaled NIS 2.005 billion compared to NIS 2.012 billion in 2016, a decrease of 0.3%. Salary expenses in the fourth quarter of 2017 were NIS 505 million, compared to NIS 503 million in the same quarter of 2016, an increase of 0.4%.

Operating expenses in 2017 totaled NIS 3.89 billion compared to NIS 4.01 billion in 2016, a decrease of 3.0%. Operating expenses in the fourth quarter of 2017 were NIS 1.00 billion, compared to NIS 1.03 billion in the same quarter of 2016, a decrease of 2.4%.
The decrease in operating expenses was due to a reduction in most of the expense categories of the group, which was influenced, among other factors, by the early adoption of accounting standard IFRS 15.

Other operating income/expenses, net in 2017 amounted to expenses of NIS 68 million compared to nil in 2016. Other operating income/expenses, net in the fourth quarter of 2017 amounted to expenses of NIS 96 million compared to expenses NIS 33 million in the same quarter of 2016.
The increase in other operating expenses was primarily due to a loss of NIS 87 million from the impairment of assets in yes.

Depreciation expenses in 2017 totaled NIS 1.72 billion compared to NIS 1.74 billion in 2016, a decrease of 1.4%. Depreciation expenses in the fourth quarter of 2017 were NIS 427 million, compared to NIS 408 million in the same quarter of 2016, an increase of 4.7%.
The decrease in depreciation expenses in 2017 was primarily due to a reduction in the amortization of excess costs recorded in connection with the increase to a controlling stake in yes. The increase in depreciation expenses in the fourth quarter 2017 was due to yearly depreciation adjustments recorded in the fourth quarter of 2016 in Bezeq Fixed-Line.

Operating profit in 2017 totaled NIS 2.11 billion compared to NIS 2.32 billion in 2016, a decrease of 9.1%. Operating profit in the fourth quarter of 2017 was NIS 427 million compared to NIS 532 million in the same quarter of 2016, a decrease of 19.7%.

EBITDA in 2017 totaled NIS 3.83 billion (EBITDA margin of 39.1%) compared to NIS 4.06 billion (EBITDA margin of 40.3%) in 2016, a decrease of 5.8%. EBITDA in the fourth quarter of 2017 was NIS 854 million (EBITDA margin of 34.7%) compared to NIS 940 million (EBITDA margin of 37.5%) in the same quarter of 2016, a decrease of 9.1%.

Financing expenses in 2017 totaled NIS 417 million compared to NIS 447 million in 2016, a decrease of 6.7%. Financing expenses in the fourth quarter of 2017 were NIS 120 million compared to NIS 136 million in the same quarter of 2016, a decrease of 11.8%.

The decrease in financing expenses was primarily due to a change in the recording of the second contingent consideration related to the acquisition of yes whereby income of NIS 14 million was recorded in 2017 compared to an expense of NIS 55 million in 2016. The decrease was partially offset by an increase in financing expenses in respect of a change in the fair value of financial assets in yes.

Tax expenses in 2017 totaled NIS 453 million compared to NIS 625 million in 2016, a decrease of 27.5%. Tax expenses in the fourth quarter of 2017 were NIS 101 million compared to NIS 210 million in the same quarter of 2016, a decrease of 51.9%.
The decrease in tax expenses was primarily due to a reduction in the tax asset in 2016 and recognition of deferred tax expenses in the amount of NIS 143 million (NIS 79 million in the fourth quarter 2016) due to a decrease in the corporate tax rate.

Net profit in 2017 totaled NIS 1.235 billion compared to NIS 1.244 billion in 2016, a decrease of 0.7%. Net profit in the fourth quarter of 2017 was NIS 205 million compared to NIS 185 million in the same quarter of 2016, an increase of 10.8%.
The increase in net profit in the fourth quarter of 2017 was primarily due to the aforementioned reduction in tax and financing expenses.

Cash flow from operating activities in 2017 totaled NIS 3.53 billion, in-line with 2016. Cash flow from operating activities in the fourth quarter of 2017 was NIS 842 million compared to NIS 832 million in the same quarter of 2016, an increase of 1.2%.

Payments for investments (Capex) in 2017 totaled NIS 1.53 billion compared to NIS 1.42 billion in 2016, an increase of 8.1%. Payments for investments in the fourth quarter of 2017 was NIS 391 million compared to NIS 335 million in the same quarter of 2016, an increase of 16.7%.
The increase in investments was primarily due to the early adoption of accounting standard IFRS 15.

Free cash flow in 2017 totaled NIS 2.09 billion compared to NIS 2.25 billion in 2016, a decrease of 6.9%. Free cash flow in the fourth quarter of 2017 was NIS 473 million compared to NIS 513 million in the same quarter of 2016, a decrease of 7.8%.
The decrease in free cash flow was due to the aforementioned increase in investments.

Net financial debt of the Group was NIS 9.39 billion as of December 31, 2017 compared to NIS 9.72 billion as of December 31, 2016. As of December 31, 2017, the Group's net financial debt to EBITDA ratio was 2.46, compared to 2.39 as of December 31, 2016.

Dividend Announcement

On March 6, 2018, the Company's Board of Directors decided to update the dividend distribution policy, whereby the Company will distribute to its shareholders, on a semi-annual basis, a dividend of 70% of the half-year profit (after tax) based on the Company's consolidated financial statements.

As a result, the Board of Directors recommended the distribution of 70% of net profits for the second half of 2017 as a cash dividend of NIS 368 million (approximately NIS 0.13 per share) to shareholders. The semi-annual dividend, which is subject to shareholder approval, would be payable on May 10, 2018. The ex-dividend date would be May 3, 2018.

2018 Outlook

Below is the Bezeq Group's outlook for 2018, based on the existing information known to the Bezeq Group today:

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

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

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

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations, including that the forecasts do not include the effects, if any, of the provision for early retirement of employees and/or the signing of collective labor agreements in the Group and cancellation of the Group's structural separation, including the effects of the merger with DBS and everything involved. The Group's forecasts are based, *inter alia*, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2018. Actual results might differ from these estimates taking note of changes which may occur in the foregoing, in business conditions, and the effects of regulatory decisions, technology changes, developments in the structure of the telecommunications market, and so forth, or if one or more of the risk factors listed in the Periodic Report of 2017.

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

Bezeq Fixed-Line Results

Stella Handler, Bezeq CEO, commented, "The financial results reflect our solid financial base in a dynamic and changing business and regulatory environment. Yesterday we approached the Ministry of Communications with a proposal to outline the operation of our fiber optic service. We take upon ourselves the commitment to provide ultra-fast Internet service to every corner of the country, and to provide the service to all Israeli citizens.

This is the first time that cloud and digital services are presented as a separate segment in the reports. Revenue in this area doubled in the last five years to NIS 230 million, while last year alone it posted a 13.3% increase. This indicates our ability to create a completely new revenue line, enabling us to cope with the competitive and technological changes that have occurred in the market in recent years. Our focus is on innovation, enabling us to enter new fields of activity in the most advanced technological worlds. We lead the IoT field in Israel, and tens of thousands of homes and hundreds of businesses are using our smart services, as well as several cities in Israel. Our innovation is also at the center of our activity in the various areas of operations such as information systems, customer service and the development of the network.

At the same time, there is fierce competition in the telecommunications market, which creates real value for the customer, reduces prices and improves service. The various reforms implemented in recent years are working well, and the number of television customers receiving service from all the providers over Bezeq's network has already surpassed 200,000. We continue to streamline our operations despite the growth in the customer base, including those of the wholesale market, which totaled 532 thousand at the end of the fourth quarter.

"Bezeq employees provide the highest quality service in Israel, as determined by the Ministry of Communications' last service survey, and are the basis for the company's success," Handler said.

Revenues in 2017 totaled NIS 4.24 billion compared to NIS 4.38 billion in 2016, a decrease of 3.2%. Revenues in the fourth quarter of 2017 were NIS 1.05 billion, compared to NIS 1.08 billion in the same quarter of 2016, a decrease of 3.2%.
The decrease in revenues was due to a reduction in telephony and transmission service revenues, which were partially offset by higher revenues from broadband Internet and cloud & digital services.

Revenues from telephony services in 2017 totaled NIS 1.28 billion compared to NIS 1.39 billion in 2016, a decrease of 8.0%. Revenues from telephony services in the fourth quarter of 2017 were NIS 309 million compared to NIS 331 million in the same quarter of 2016, a decrease of 6.6%.
The decrease in telephony revenues was due to a reduction of 5.3% in the average revenue per line in 2017 and 3.6% in the fourth quarter of 2017 as well as a decrease of 4.7% in the number of access lines.

Revenues from broadband Internet services (retail and wholesale) in 2017 totaled NIS 1.54 billion compared to NIS 1.50 billion in 2016, an increase of 2.9%. Revenues from broadband Internet services in the fourth quarter of 2017 were NIS 397 million compared to NIS 381 million in the same quarter of 2016, an increase of 4.2%.
The increase in revenues from broadband Internet services was primarily due to continued growth in the number of Internet lines, which reached 1.64 million subscribers, despite the decrease in retail broadband Internet subscribers.

Revenues from transmission and data communication services in 2017 totaled NIS 975 million compared to NIS 1.07 billion in 2016, a decrease of 8.8%. Revenues from transmission and data communication services in the fourth quarter of 2017 were NIS 236 million compared to NIS 272 million in the same quarter of 2016, a decrease of 13.2%.
The decrease in revenues from transmission and data communication services was due to a reduction in transmission revenues from telecommunication operators.

Beginning in the 2017 financial statements, the Company is reclassifying its revenues under a new category called "cloud and digital services". These services are defined as managed services, with the designated infrastructure installed in the Bezeq core network. Customers are connected to such infrastructure via the Internet or through a dedicated communication line.

Revenues from cloud & digital services in 2017 totaled NIS 230 million compared to NIS 203 million in 2016, an increase of 13.3%. Revenues from cloud & digital services in the fourth quarter of 2017 totaled NIS 60 million compared to NIS 53 million in the same quarter of 2016, an increase of 13.2%.
The increase in revenues from cloud & digital services was primarily due to an increase in revenues from virtual private exchange (IP Centrex) services, digital marketing and advertising services, IoT services, managed services in the business sector and Internet security applications.

Operating expenses in 2017 totaled NIS 677 million compared to NIS 705 million in 2016, a decrease of 4.0%. Operating expenses in the fourth quarter of 2017 were NIS 163 million, compared to NIS 180 million in the corresponding quarter of 2016, a decrease of 9.4%.
The decrease in operating expenses was primarily due to a reduction in most of the expense categories of the Company, which was influenced, among other factors, by the early adoption of accounting standard IFRS 15.

Salary expenses in 2017 totaled NIS 891 million compared to NIS 898 million in 2016, a decrease of 0.8%. Salary expenses in the fourth quarter of 2017 were NIS 223 million compared to NIS 226 million in the same quarter of 2016, a decrease of 1.3%.

Other operating income/expenses (net) in 2017 amounted to income of NIS 23 million compared to income of NIS 13 million in 2016. Other operating income/expenses (net) in the fourth quarter of 2017 amounted to expenses of NIS 6 million compared to expenses NIS 34 million in the same quarter of 2016.
Other operating income/expenses was influenced by a decrease in the provision for early retirement partially offset by a reduction in capital gains from the sale of real estate.

Depreciation expenses in 2017 totaled NIS 728 million compared to NIS 717 million in 2016, an increase of 1.5%. Depreciation expenses in the fourth quarter of 2017 were NIS 185 million compared to NIS 161 million in the same quarter of 2016, an increase of 14.9%.
The increase in depreciation expenses in the fourth quarter was due to yearly depreciation adjustments recorded in the fourth quarter of 2016.

Operating profit in 2017 totaled NIS 1.97 billion compared to NIS 2.08 billion in 2016, a decrease of 5.1%. Operating profit in the fourth quarter of 2017 totaled NIS 470 million compared to NIS 481 million in the same quarter of 2016, a decrease of 2.3%.

EBITDA in 2017 totaled NIS 2.70 billion (EBITDA margin of 63.6%) compared to NIS 2.79 billion (EBITDA margin of 63.7%) in 2016, a decrease of 3.4%. EBITDA in the fourth quarter of 2017 totaled NIS 655 million (EBITDA margin of 62.6%) compared to NIS 642 million (EBITDA margin of 59.3%) in the same quarter of 2016, an increase of 2.0%.

Financing expenses in 2017 totaled NIS 403 million compared to NIS 445 million in 2016, a decrease of 9.4%. Financing expenses in the fourth quarter of 2017 were NIS 122 million compared to NIS 146 million in the same quarter of 2016, a decrease of 16.4%.
The decrease in financing expenses was primarily due a change in the recording of the second contingent consideration related to the acquisition of yes whereby income of NIS 14 million was recorded in 2017 compared to an expense of NIS 55 million in 2016.

Tax expenses in 2017 totaled NIS 396 million compared to NIS 399 million in 2016, a decrease of 0.8%. Tax expenses in the fourth quarter of 2017 were NIS 88 million compared to NIS 100 million in the same quarter of 2016, a decrease of 12.0%.

Net profit in 2017 totaled NIS 1.17 billion compared to NIS 1.23 billion in 2016, a decrease of 4.9%. Net profit in the fourth quarter of 2017 totaled NIS 260 million compared to NIS 235 million in the same quarter of 2016, an increase of 10.6%.
The increase in net profit in the fourth quarter of 2017 was due to the aforementioned decrease in financing and tax expenses.

Cash flow from operating activities in 2017 totaled NIS 2.23 billion compared to NIS 2.06 billion in 2016, an increase of 7.8%. Cash flow from operating activities in the fourth quarter of 2017 was NIS 587 million compared to NIS 482 million in the same quarter of 2016, an increase of 21.8%.
The increase in cash flow from operating activities was due to changes in working capital and tax payments.

Payments for investments (Capex) in 2017 totaled NIS 825 million compared to NIS 834 million in 2016, a decrease of 1.1%. Payments for investments in the fourth quarter of 2017 was NIS 226 million compared to NIS 205 million in the same quarter of 2016, an increase of 10.2%.

Free cash flow in 2017 totaled NIS 1.49 billion compared to NIS 1.36 billion in 2016, an increase of 9.7%. Free cash flow in the fourth quarter of 2017 was NIS 383 million compared to NIS 292 million in the same quarter of 2016, an increase of 31.2%.
The increase in free cash flow was due to the aforementioned increase in cash flow from operating activities.

In the fourth quarter of 2017, the Company added 27,000 broadband Internet lines (retail and wholesale), totaling 1.64 million. This figure reflects the highest quarterly increase recorded over the past two years. The number of wholesale broadband Internet lines continued to grow and reached 532,000 lines, representing a sequential increase of 48,000 lines. During the past year, the number of wholesale lines grew by 155,000.

During the fourth quarter of 2017, **average broadband speeds** reached 51.5 Mbps, compared to 49.5 Mbps sequentially, and 43.4 Mbps in the fourth quarter of 2016, representing a year-over-year increase of 18.7%.

Further to the aforementioned reclassification of revenues, retroactive adjustments were made to the number of telephony access lines, average revenue per line and average revenue per Internet subscriber.

Average revenue per Internet subscriber (ARPU - retail) in the fourth quarter of 2017 was NIS 92, compared to NIS 90 sequentially and NIS 90 in the fourth quarter of 2016.

The number of **telephony access lines** totaled 1.916 million at the end of December 2017, compared to 1.942 million at the end of September 2017 and 2.010 million at the end of December 2016.

Average revenue per line (**ARPL**) in the fourth quarter of 2017 totaled NIS 53, compared to NIS 54 sequentially and NIS 55 in the fourth quarter of 2016.

Bezeq Fixed-Line - Financial data	Q4 2017	Q4 2016	% change	FY 2017	FY 2016	% change
	(NIS millions)			*(NIS millions)*		
Total revenues	1,047	1,082	(3.2%)	4,244	4,383	(3.2%)
Telephony revenues	309	331	(6.6%)	1,281	1,392	(8.0%)
Broadband Internet revenues	397	381	4.2%	1,544	1,500	2.9%
Transmission and data revenues	236	272	(13.2%)	975	1,069	(8.8%)
Cloud & digital services revenues[3]	60	53	13.2%	230	203	13.3%
Other revenues	45	45	0.0%	214	219	(2.3%)
Operating profit	470	481	(2.3%)	1,971	2,076	(5.1%)
EBITDA	655	642	2.0%	2,699	2,793	(3.4%)
EBITDA margin	62.6%	59.3%		63.6%	63.7%	
Net profit [1]	260	235	10.6%	1,172	1,232	(4.9%)
Cash flows from operating activities	587	482	21.8%	2,225	2,064	7.8%
Payments for investments	226	205	10.2%	825	834	(1.1%)
Free cash flow [2]	383	292	31.2%	1,494	1,362	9.7%

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

[2] Free cash flow is defined as cash flows from operating activities less net payments for investments.

[3]The Company's revenues were reclassified as of FY 2017, such that certain revenues were reclassified under the category "Cloud & Digital Services."

Bezeq Fixed-Line - KPIs	Q4 2017	Q3 2017	Q4 2016
Active subscriber lines (in thousands) [1,5]	1,916	1,942	2,010
Average monthly revenue per line (NIS) [2,5]	53	54	55
Outgoing minutes (millions)	1,068	1,132	1,136
Incoming minutes (millions)	1,205	1,266	1,252
Churn rate (%) [3]	2.4%	2.3%	2.4%
Total broadband Internet lines (in thousands)[4]	1,635	1,608	1,558
Of which: Wholesale broadband Internet lines (in thousands) [4]	532	484	377
Average monthly revenue per broadband Internet subscriber (NIS) - Retail [5]	92	90	90
Average broadband speed per subscriber (end of period, Mbps)	51.5	49.5	43.4

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

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

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

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

[5]Pursuant to the reclassification of Company revenues, retroactive adjustments were made to subscriber lines, average monthly revenue per line and average monthly revenue per broadband Internet subscriber.

Pelephone Results

Ran Guron, CEO of Pelephone, stated, “2017 was a watershed year for Pelephone, and this is clearly evident in our financial results. We continue to post positive operating results, which are improving from quarter to quarter and validate our growth strategy over the past two years. The erosion in overall revenues has clearly been stemmed with an outstanding achievement compared to the same quarter last year – a decrease of only 0.2%, despite a market-wide decline in ARPU. Furthermore, we see continued strong growth in subscriber recruitment with 206,000 new subscribers. Net profit jumped 55.7% above last year’s figure and 600% compared to the same quarter last year, with a continued decrease in operating costs and continued investment activities.”

Guron added that, “Pelephone focuses on the cellular market and is leading across all metrics: the fastest network, the leading cellular brand, and the company with the best service. In the present year, we will continue our current initiatives: IoT, digital transformation, and completion of our MIMO 4X4 deployment plan. Results on the ground has positioned Pelephone as the best and most cutting-edge company in the cellular market in Israel.”

Total revenues in 2017 totaled NIS 2.55 billion compared to NIS 2.63 billion in 2016, a decrease of 3.2%. Total revenues in the fourth quarter of 2017 were NIS 651 million compared to NIS 652 million in the same quarter of 2016, a decrease of 0.2%.

Revenues from cellular services stabilized in 2017 as the accelerated growth in subscribers stemmed the erosion in service revenues, which characterized the last few years. Revenues from cellular services in 2017 totaled NIS 1.78 billion compared to NIS 1.82 billion in 2016, a decrease of 2.0%. Revenues from cellular services in the fourth quarter of 2017 were NIS 437 million compared to NIS 439 million in the same quarter of 2016, a decrease of 0.5%.
The decrease in revenues from cellular services was due to the transition of existing customers to lower priced plans including higher data plans which correspond to current market prices, and which was almost completely offset by an increase in revenues from new subscribers.

Revenues from equipment sales in 2017 totaled NIS 764 million compared to NIS 812 million in 2016, a decrease of 5.9%. Revenues from equipment sales in the fourth quarter of 2017 were NIS 214 million, compared to NIS 213 in the same quarter of 2016, an increase of 0.5%.
The increase in revenues from equipment sales in the fourth quarter was due to the successful launch of new handsets, and the decrease on a yearly basis was due to the cancellation of purchase tax on imported cellular handsets in April 2017 that led to a reduction in prices as well as an increase in competition.

Operating expenses continued to decrease and in 2017 totaled NIS 2.47 billion compared to NIS 2.60 billion in 2016, a decrease of 4.7%. Operating expenses in the fourth quarter of 2017 were NIS 636 million compared to NIS 655 million in the same quarter of 2016, a decrease of 2.9%.

Operating profit grew significantly in 2017 and totaled NIS 72 million compared to NIS 32 million in 2016, an increase of 125%. Operating profit in the fourth quarter of 2017 was NIS 15 million, compared to an operating loss of NIS 4 million in the same quarter of 2016.
The increase in operating profit was primarily due to the continued reduction in operating expenses due to, among other factors, the early adoption of accounting standard IFRS 15.

EBITDA in 2017 totaled NIS 455 million (EBITDA margin of 17.9%) compared to NIS 412 million (EBITDA margin of 15.7%) in 2016, an increase of 10.4%. **EBITDA** in the fourth quarter of 2017 was NIS 105 million (EBITDA margin of 16.1%), compared to NIS 85 million (EBITDA margin of 13.0%) in the same quarter of 2016, an increase of 23.5%.

Net profit in 2017 totaled NIS 95 million compared to NIS 61 million in 2016, an increase of 55.7%. Net profit in the fourth quarter of 2017 was NIS 21 million compared to NIS 3 in the same quarter of 2016, an increase of 600%.

Cash flow from operating activities in 2017 totaled NIS 605 million compared to NIS 582 million in 2016, an increase of 4.0%. Cash flow from operating activities in the fourth quarter of 2017 was NIS 86 million compared to NIS 65 million in the same quarter of 2016, an increase of 32.3%.

Free cash flow in 2017 totaled NIS 296 million compared to NIS 341 million in 2016, a decrease of 13.2%. Free cash flow in the fourth quarter of 2017 was NIS 10 million compared to NIS 2 million in the same quarter of 2016, an increase of 400%.

Pelephone continued to lead in subscriber growth with an increase of 206,000 new subscribers in 2017 (after adjusting for the disconnection of 83,000 subscribers due to the closure of the CDMA network).

Press Release

Pelephone - Financial data	Q4 2017	Q4 2016	% change	FY 2017	FY 2016	% change
	(NIS millions)			*(NIS millions)*		
Total revenues	651	652	(0.2%)	2,546	2,630	(3.2%)
Service revenues	437	439	(0.5%)	1,782	1,818	(2.0%)
Equipment revenues	214	213	0.5%	764	812	(5.9%)
Operating profit	15	(4)		72	32	125.0%
EBITDA	105	85	23.5%	455	412	10.4%
EBITDA margin	16.1%	13.0%		17.9%	15.7%	
Net profit	21	3	600.0%	95	61	55.7%
Cash flows from operating activities	86	65	32.3%	605	582	4.0%
Payments for investments	77	64	20.3%	310	243	27.6%
Free cash flow [1]	10	2	400.0%	296	341	(13.2%)

[1] Free cash flow is defined as cash flows from operating activities less net payments for investments.

Pelephone - KPIs	Q4 2017	Q3 2017	Q4 2016
Total subscribers (end of period, in thousands) [1]	2,525	2,475	2,402
Average revenue per user (ARPU, NIS) [2]	58	63	62
Churn rate [3]	6.9%	7.1%	6.3%

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

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

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

Press Release

Bezeq International Results

Moti Elmaliach, **CEO of Bezeq International,** said, "In 2017, we continued implementing the Company's 'Cyber as a Service' cyber defense strategy, which we have been spearheading in Israel. The innovation we promote for our household and commercial customers in Israel and abroad, is particularly evident in light of the stiff competition we face in our various operating segments, and provides additional and unique value for our customers."

Revenues in 2017 totaled NIS 1.54 billion compared to NIS 1.55 billion in 2016, a decrease of 0.7%. Revenues in the fourth quarter of 2017 reached NIS 379 million compared to NIS 392 million in the same quarter of 2016, a decrease of 3.3%.

After adjusting for hubbing revenues, total revenues in 2017 increased 1.2% compared to 2016 due to the continued growth in revenues from business communications (ICT) partially offset by the decrease in revenues from international calls.

Profitability metrics were influenced by the significant decrease in the international calls and hubbing sectors.

Operating profit in 2017 totaled NIS 174 million compared to NIS 176 million in 2016, a decrease of 1.1%. Operating profit in the fourth quarter of 2017 was NIS 41 million compared to NIS 47 million in the same quarter of 2016, a decrease of 12.8%.

EBITDA in 2017 totaled NIS 309 million (EBITDA margin of 20.1%), compared to NIS 313 million (EBITDA margin of 20.2%) in 2016, a decrease of 1.3%. EBITDA in the fourth quarter of 2017 was NIS 76 million (EBITDA margin of 20.1%), compared to NIS 81 million (EBITDA margin of 20.7%) in the same quarter of 2016, a decrease of 6.2%.

Net profit in 2017 totaled NIS 127 million compared to NIS 125 million in 2016, an increase of 1.6%. Net profit in the fourth quarter of 2017 was NIS 31 million, compared to NIS 33 million in the same quarter of 2016, a decrease of 6.1%.

Cash flow from operating activities in 2017 totaled NIS 277 million compared to NIS 269 million in 2016, an increase of 3.0%. Cash flow from operating activities in the fourth quarter of 2017 was NIS 82 million, compared to NIS 86 million in the same quarter of 2016, a decrease of 4.7%.

Free cash flow in 2017 totaled NIS 138 million compared to NIS 150 million in 2016, a decrease of 8.0%. Free cash flow in the fourth quarter of 2017 was NIS 47 million compared to NIS 61 million in the same quarter of 2016, a decrease of 23.0%.

Bezeq International	Q4 2017	Q4 2016	% change	FY 2017	FY 2016	% change
	(NIS millions)			(NIS millions)		
Revenues	379	392	(3.3%)	1,537	1,548	(0.7%)
Operating profit	41	47	(12.8%)	174	176	(1.1%)
EBITDA	76	81	(6.2%)	309	313	(1.3%)
EBITDA margin	20.1%	20.7%		20.1%	20.2%	
Net profit	31	33	(6.1%)	127	125	1.6%
Cash flows from operating activities	82	86	(4.7%)	277	269	3.0%
Payments for investments	36	26	38.5%	142	120	18.3%
Free cash flow [1]	47	61	(23.0%)	138	150	(8.0%)

[1] Free cash flow is defined as cash flows from operating activities less net payments for investments.

yes Results

Ron Eilon, CEO of yes, stated, "Despite fierce competition, *yes* continues to lead the television market with our new value offering – *yes ULTIMATE*, which allows existing and new customers to enjoy a uniform price, get much more while paying much less for the best content in Israel, uncompromising customer service, and winning product innovations."

Revenues in 2017 totaled NIS 1.65 billion compared to NIS 1.75 billion in 2016, a decrease of 5.4%. Revenues in the fourth quarter of 2017 were NIS 404 million compared to NIS 438 million in the same quarter of 2016, a decrease of 7.8%. 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 2017 totaled NIS 163 million compared to NIS 264 million in 2016, a decrease of 38.3%. Operating profit in the fourth quarter of 2017 was NIS 27 million compared to NIS 68 million in the same quarter of 2016, a decrease of 60.3%. The decrease in operating profit was primarily due to a decrease in revenues.

EBITDA in 2017 totaled NIS 448 million (EBITDA margin of 27.2%), compared to NIS 560 million (EBITDA margin of 32.1%), in 2016, a decrease of 20.0%. EBITDA in the fourth quarter of 2017 was NIS 99 million (EBITDA margin of 24.5%), compared to NIS 139 million (EBITDA margin of 31.7%) in the same quarter of 2016, a decrease of 28.8%.

Profit before financing expenses from shareholders and taxes in 2017 totaled NIS 92 million compared to NIS 206 million in 2016, a decrease of 55.3%. Profit before financing income from shareholders and taxes in the fourth quarter of 2017 was NIS 15 million, compared to NIS 67 million in the same quarter of 2016, a decrease of 77.6%.
Profits before financing expenses from shareholders and taxes were influenced by the decrease in operating profit and the increase in financing expenses due to a change in the fair value of financial assets.

Net profit/loss in 2017 totaled a net loss of NIS 244 million compared to a net profit of NIS 68 million in 2016. Net profit in the fourth quarter of 2017 was NIS 11 million compared to NIS 395 million in the same quarter of 2016.
The increase in net loss in 2017 was due to the complete reduction of the tax asset partially offset by the conversion of financing expenses from shareholder loans to equity.
The decrease in net profit in the fourth quarter of 2017 was due to the recording of the deferred tax asset in the corresponding quarter of 2016.

Cash flow from operating activities in 2017 totaled NIS 430 million compared to NIS 629 million in 2016, a decrease of 31.6%. Cash flow from operating activities in the fourth quarter of 2017 was NIS 95 million compared to NIS 207 million in the same quarter of 2016, a decrease of 54.1%.
The decrease in cash flow from operating activities in 2017 was primarily due to a decrease in profitability as well as an increase in payments for broadcasting rights.

ARPU in the fourth quarter of 2017 was NIS 226 compared to NIS 237 in the same quarter of 2016, a decrease of 4.6%.

The number of yes **subscribers** in the fourth quarter of 2017 decreased by 9,300 to a total of 587,000 subscribers.

yes - Financial data	Q4 2017	Q4 2016	% change	FY 2017	FY 2016	% change
	(NIS millions)			*(NIS millions)*		
Revenues	404	438	(7.8%)	1,650	1,745	(5.4%)
Operating profit	27	68	(60.3%)	163	264	(38.3%)
EBITDA	99	139	(28.8%)	448	560	(20.0%)
EBITDA margin	24.5%	31.7%		27.2%	32.1%	
Profit before finance expenses to shareholders and taxes	15	67	(77.6%)	92	206	(55.3%)
Net profit (loss)	11	395	(97.2%)	(244)	68	
Cash flows from operating activities	95	207	(54.1%)	430	629	(31.6%)
Payments for investments	53	41	29.3%	235	209	12.4%
Free cash flow [1]	42	166	(74.7%)	196	421	(53.4%)

[1] Free cash flow is defined as cash flows from operating activities less net payments for investments.

yes - KPIs	Q4 2017	Q3 2017	Q4 2016
Number of subscribers (end of period, in thousands) [1]	587	597	614
Average revenue per user (ARPU, NIS) [2]	226	226	237
Churn rate (%) [3]	5.9%	4.8%	3.6%

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

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

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

Conference Call & Webcast Information

Bezeq will conduct a conference call hosted by Mr. David Granot, Bezeq's Interim Chairman, and Mr. Yali Rothenberg, Bezeq's Chief Financial Officer on Thursday, March 29, 2018, at 4:00 PM Israel Time / 9:00 AM Eastern Time. Participants may join the live conference call by dialing:

International Phone Number: + 972-3-918-0687
Israel Phone Number: 03-918-0687

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

A webcast replay will be made available on the investor relations section of Bezeq's corporate website. An automated telephone replay will also be available approximately three hours after the completion of the live call through Wednesday, April 4, 2018. Participants can access and listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5921
Israel Phone Number: 03-925-5921

About "Bezeq" The Israel Telecommunication Corp.

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

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

This press release contains general data and information as well as forward looking statements about Bezeq. Such statements include expressions of management's expectations about new and existing programs, opportunities, technology and market conditions. Although Bezeq believes its expectations are based on reasonable assumptions, these statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. These forward-looking statements are made only as of the date hereof and the Company assumes no obligation to update any forward-looking statement. In addition, the realization and/or otherwise of the forward-looking information will be affected by factors that cannot be assessed in advance, and which are not within the control of the Corporation, including the risk factors that are characteristic of its operations, and developments in the general environment, and external factors and the regulation that affects the Corporation's operations.

This press release contains partial information from the public reports of Bezeq under the Israeli Securities Law 5728-1968 (the "Securities Law"), which reports can be accessed at the Israeli Securities Authority's website, www.magna.isa.gov.il. A review of this press release is not a substitute for a review of the detailed reports of Bezeq under the Securities Law and is not meant to replace or qualify them; rather, the press release is prepared merely for the convenience of the reader, with the understanding that the detailed reports are being reviewed simultaneously. No representation is made as to the accuracy or completeness of the information contained herein.

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

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

	2017	2016	2015
	NIS million	NIS million	NIS million
Revenues	**9,789**	10,084	9,985
Costs of activity			
General and operating expenses	**3,891**	4,012	3,869
Salaries	**2,005**	2,012	1,957
Depreciation and amortization	**1,715**	1,739	1,684
Other operating (income) expenses, net	**68**	-	(95)
	7,679	7,763	7,415
Operating profit	**2,110**	2,321	2,570
Financing expenses			
Financing expenses	**477**	508	376
Financing income	**(60)**	(61)	(113)
Financing expenses, net	**417**	447	263
Profit after financing expenses, net	**1,693**	1,874	2,307
Share in earnings (losses) of equity accounted investees	**(5)**	(5)	12
Profit before income tax	**1,688**	1,869	2,319
Income tax	**453**	625	598
Equity for the year attributable to shareholders of the Company	**1,235**	1,244	1,721
Earnings per share (NIS)			
Basic earnings per share	**0.45**	0.45	0.63
Diluted earnings per share	**0.45**	0.45	0.62

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

	Year ended December 31		
	2017	2016	2015
	NIS million	NIS million	NIS million
Loss from impairment of assets	**87**	-	-
Profit from the sale of fixed assets (mainly real estate)	**(66)**	(107)	(234)
Provision for early retirement	**23**	96	117
Others	**24**	11	22
Other operating (income) expenses, net	**68**	-	(95)

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

	2017	2016
Assets	**NIS million**	**NIS million**
Cash and cash equivalents	**2,181**	648
Investments	**289**	586
Trade receivables	**1,915**	2,000
Other receivables	**270**	219
Eurocom DBS, related party	**43**	-
Inventory	**125**	106
Total current assets	**4,823**	3,559
Trade and other receivables	**493**	644
Broadcasting rights, net of rights exercised	**454**	432
Fixed assets	**6,798**	6,876
Intangible assets	**2,768**	3,047
Deferred tax assets	**1,019**	1,007
Deferred expenses and non-current investments	**494**	382
Total non-current assets	**12,026**	12,388
Total assets	**16,849**	15,947

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

	2017	2016
	NIS million	NIS million
Debentures, loans and borrowings	**1,632**	1,825
Trade and other payables	**1,699**	1,610
Current tax liabilities	**152**	104
Employee benefits	**280**	315
Liability to Eurocom DBS Ltd. related party	**-**	32
Provisions	**94**	80
Total current liabilities	**3,857**	3,966
Loans and debentures	**10,229**	9,128
Employee benefits	**272**	258
Derivatives and other liabilities	**234**	244
Deferred tax liabilities	**73**	101
Provisions	**40**	47
Total non-current liabilities	**10,848**	9,778
Total liabilities	**14,705**	13,744
Total equity	**2,144**	2,203
Total liabilities and equity	**16,849**	15,947

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

	2017	2016	2015
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the year	**1,235**	1,244	1,721
Adjustments:			
Depreciation and amortization	**1,715**	1,739	1,684
Loss from impairment of assets	**87**	-	-
Capital gain, net	**(66)**	(107)	(234)
Share in the losses (profits) of equity-accounted investees	**5**	5	(12)
Financing expenses, net	**426**	474	307
Income tax expenses	**453**	625	598
Profit from gaining control in DBS	**-**	-	(12)
Change in trade and other receivables	**193**	106	322
Change in inventory	**(35)**	(20)	(20)
Change in trade and other payables	**10**	(24)	(271)
Change in provisions	**15**	(19)	18
Change in employee benefits	**(33)**	(65)	110
Change in other liabilities	**(34)**	23	(9)
Net income tax paid	**(446)**	(455)	(462)
Net cash from operating activities	**3,525**	3,526	3,740
Cash flow used for investing activities			
Purchase of fixed assets	**(1,131)**	(1,193)	(1,324)
Investment in intangible assets and deferred expenses	**(399)**	(223)	(311)
Investment in bank deposits and others	**(276)**	(917)	(1,785)
Proceeds from bank deposits and others	**564**	1,088	3,260
Proceeds from the sale of fixed assets	**98**	138	151
Miscellaneous	**(4)**	1	(7)
Tax payment for shareholder's loans	**-**	(461)	-
Cash in a company consolidated for the first time	**-**	-	299
Net cash from (used in) investment activities	**(1,148)**	(1,567)	283

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

	2017	2016	2015
	NIS million	NIS million	NIS million
Cash flows used in financing activities			
Issue of debentures and receipt of loans	**2,517**	2,161	1,010
Repayment of debentures and loans	**(1,567)**	(1,841)	(2,192)
Dividends paid	**(1,286)**	(1,441)	(1,777)
Interest paid	**(415)**	(458)	(494)
Payment to Eurocom DBS for acquisition of shares and DBS loan	**(61)**	(256)	(680)
Miscellaneous	**(32)**	(31)	5
Net cash used for financing activities	**(844)**	(1,866)	(4,128)
Increase (decrease) in cash and cash equivalents, net	**1,533**	93	(105)
Cash and cash equivalents as at January 1	**648**	555	660
Cash and cash equivalents as at the end of the year	**2,181**	648	555

"Bezeq" The Israel Telecommunication Corp., Limited

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

	Year ended December 31, 2017		
	In accordance with the previous policy	Change	In accordance with IFRS 15
	NIS million	NIS million	NIS million
General and operating expenses	4,022	**(131)**	**3,891**
Salaries	2,039	**(34)**	**2,005**
Depreciation and amortization expenses	1,661	**54**	**1,715**
Operating profit	1,999	**111**	**2,110**
Profit after financing expenses	1,582	**111**	**1,693**
Profit before income tax	1,577	**111**	**1,688**
Income tax	426	**27**	**453**
Profit for the period	1,151	**84**	**1,235**