



**BEZEQ**  
**(TASE: BEZQ)**

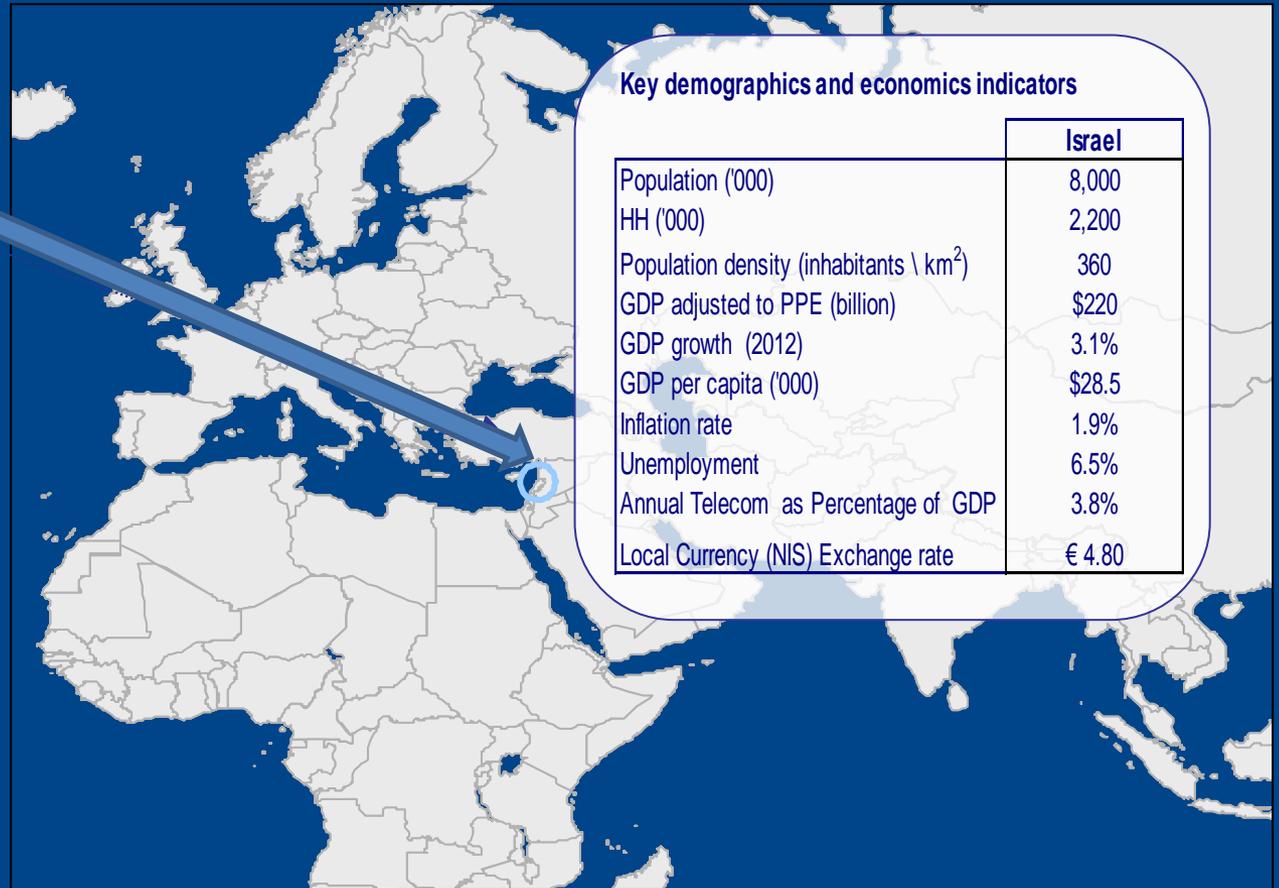
**Investor Presentation**  
**Second Quarter 2013**

# Forward-Looking Information and Statement

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

# Israel Macro Overview

A growing economy with strong fundamentals and a highly developed telecom market



# BEZEQ

The largest provider of  
telecommunications services  
in Israel

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- LTM Revenue: NIS 9.7 billion
- Most comprehensive range of offerings
  - 2.22 million fixed customer lines
  - 2.70 million cellular customer lines
  - 1.20 million broadband lines
  - 583,000 Pay-TV customers
- Highly dynamic market with one of the highest household broadband and mobile penetration rates
- LTM Dividends paid to shareholders totaling NIS 2.86 billion



# The Bezeq Advantage



**Strong market positions in all telecom sectors**



**Advanced nationwide infrastructure**



**Strong and stable financials enabling sector  
leading dividend policy**



**Strong, stable and experienced management team**

# BEZEQ GROUP

Wide diversification of advanced telecom services

  
bezeq **Fixed  
Line**

  
telephone **Cellular**

  
Bezeq  
International  
**ISP, ILD, ICT**

  
**yes Pay TV**

**walla**  
**Internet Portal**

  
bezeq on line  
**Call Center**



# Investments in Advanced Infrastructure

## Fixed Line



- Most advanced communications network in Israel
- FTTC, all IP, infrastructure for consumer and business customers
- Over 98% of Israeli households covered

## Telephone

HIGH SPEED GSM+

HSPA

- HSPA (High Access Packet Speed) cellular technology offering 3.75 G speed
- Essential to accessing higher value segments of the mobile market
- Strong platform for rising smartphone demand and advanced data services

## Bezeq International



- New high-speed submarine cable system deployed between Israel and Europe
- Increasing bandwidth at affordable rates



# Bezeq Group Financial Overview

# Bezeq Group – Revenue & EBITDA

Consolidated Revenue  
NIS MM



Consolidated EBITDA  
NIS MM



- Consolidated revenue in Q2 2013 decreased 9.4% Y-o-Y mainly due to a reduction in Telephone revenues from cellular services and equipment.
- EBITDA decline in Q2 2013 of 3.1% Y-o-Y was moderated by efficiency measures and cost cutting efforts enacted throughout the group companies.

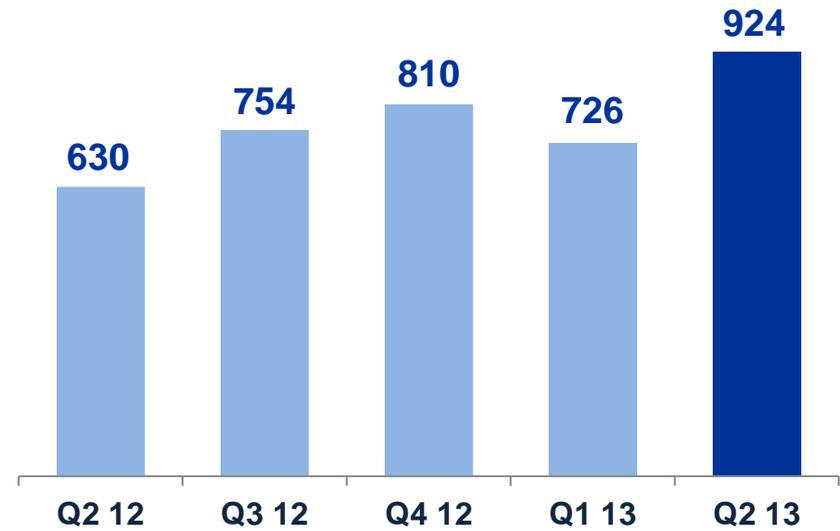
# Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx  
NIS MM



Note: Consolidated capital expenditures (CapEx) cited on accounting basis

Consolidated Free Cash Flow <sup>(1) (2)</sup>  
NIS MM

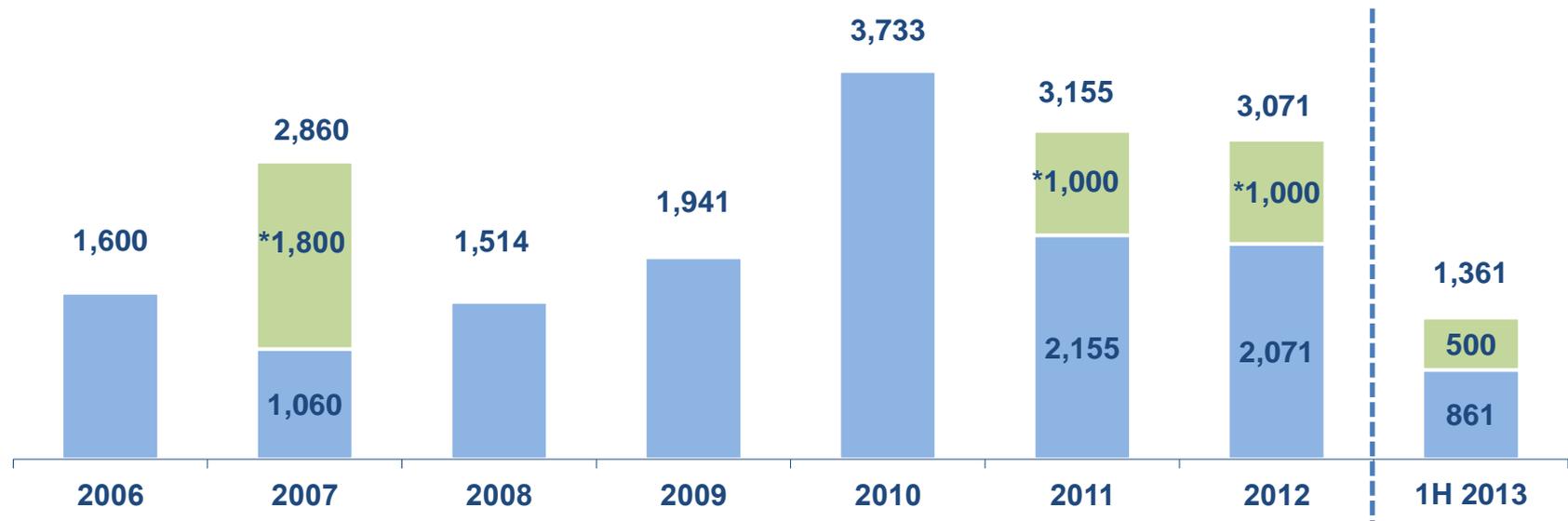


1. Free cash flow defined as Cash Flow from Operations– Net Capex  
2. Excluding yes

- Capex in Q2 2013 was positively influenced by the completion of the NGN project and of Bezeq International's submarine cable deployment.
- Free cash flow in Q2 2013 increased 46.7% Y-o-Y due to the rise in cash flow from operating activities as well as from increased cash inflow from the sale of real estate and copper.

# Sector Leading Dividend Policy

## Bezeq Group Dividends by Year (NIS MM)

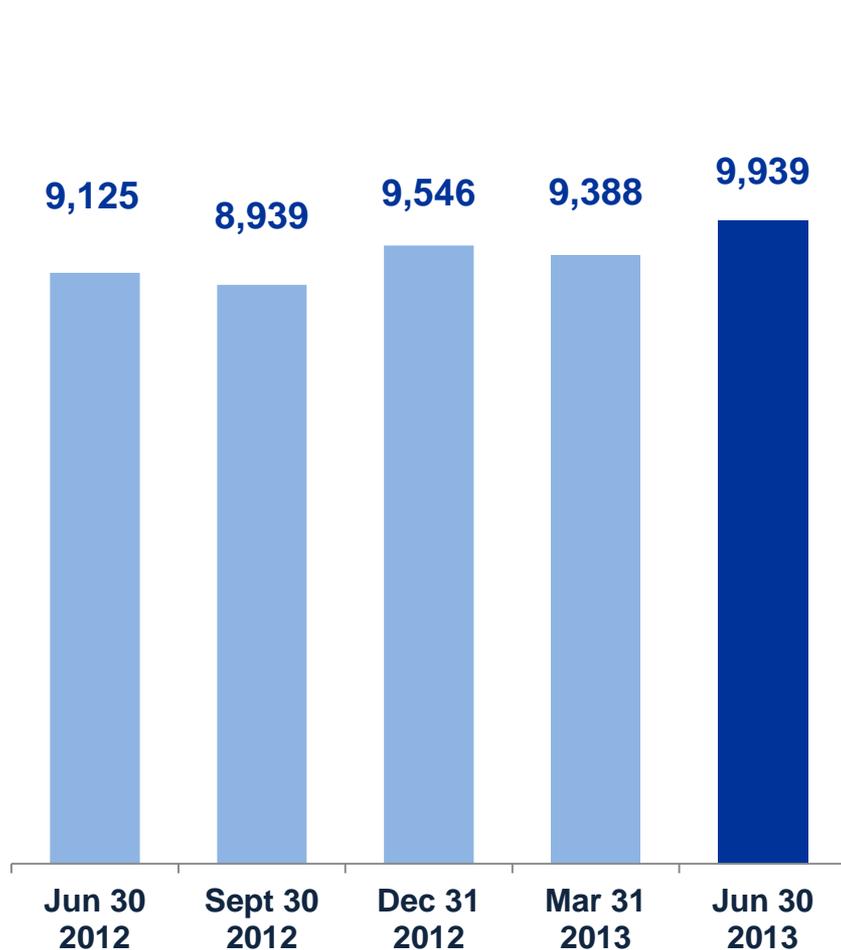


\* Special dividend

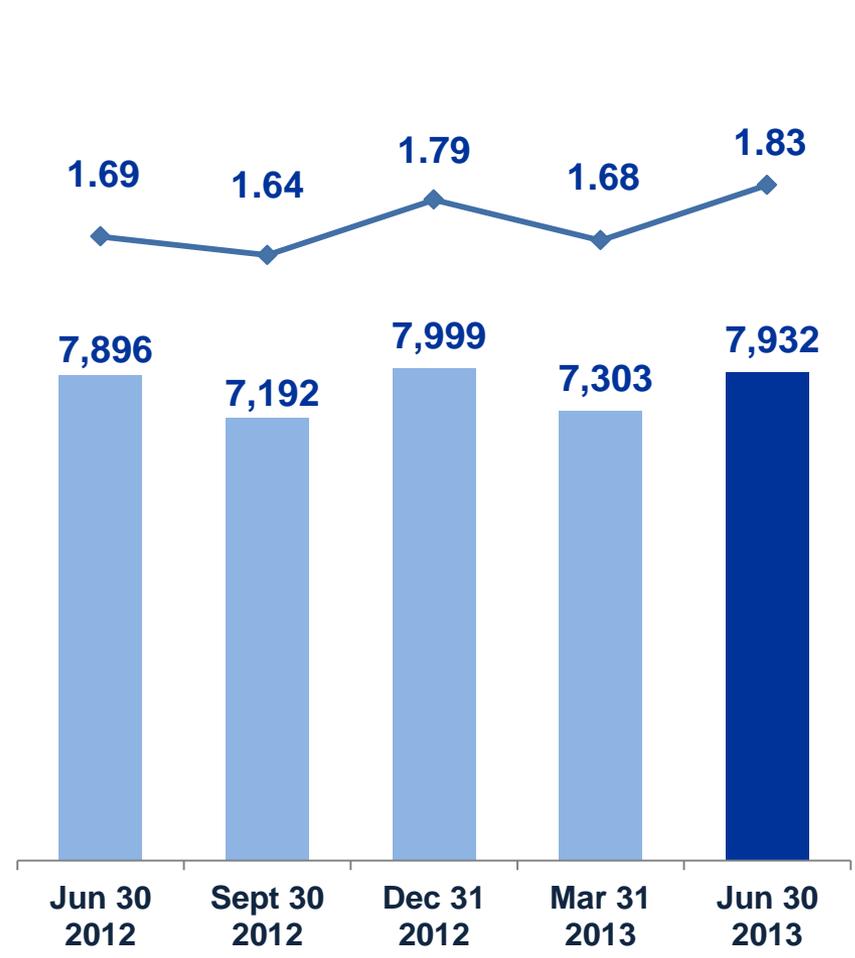
- **Regular Dividends:** 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis.
- **Special Dividends:** Six semi-annual NIS 500 million payments running from 2011 to 2013, as part of the Company's capital reduction plan. The sixth and final payment will be made together with the regular dividend on September 15, 2013.

# Bezeq Group – Debt

Group Gross Debt (NIS MM)



Net Debt (NIS MM) — Net Debt / EBITDA



# Regulatory Opportunities & Challenges



- ⚡ **Removal of structural separation**
- ⚡ **Development of wholesale market**
- ⚡ **Cancellation of tariff supervision**



**Fixed Line**

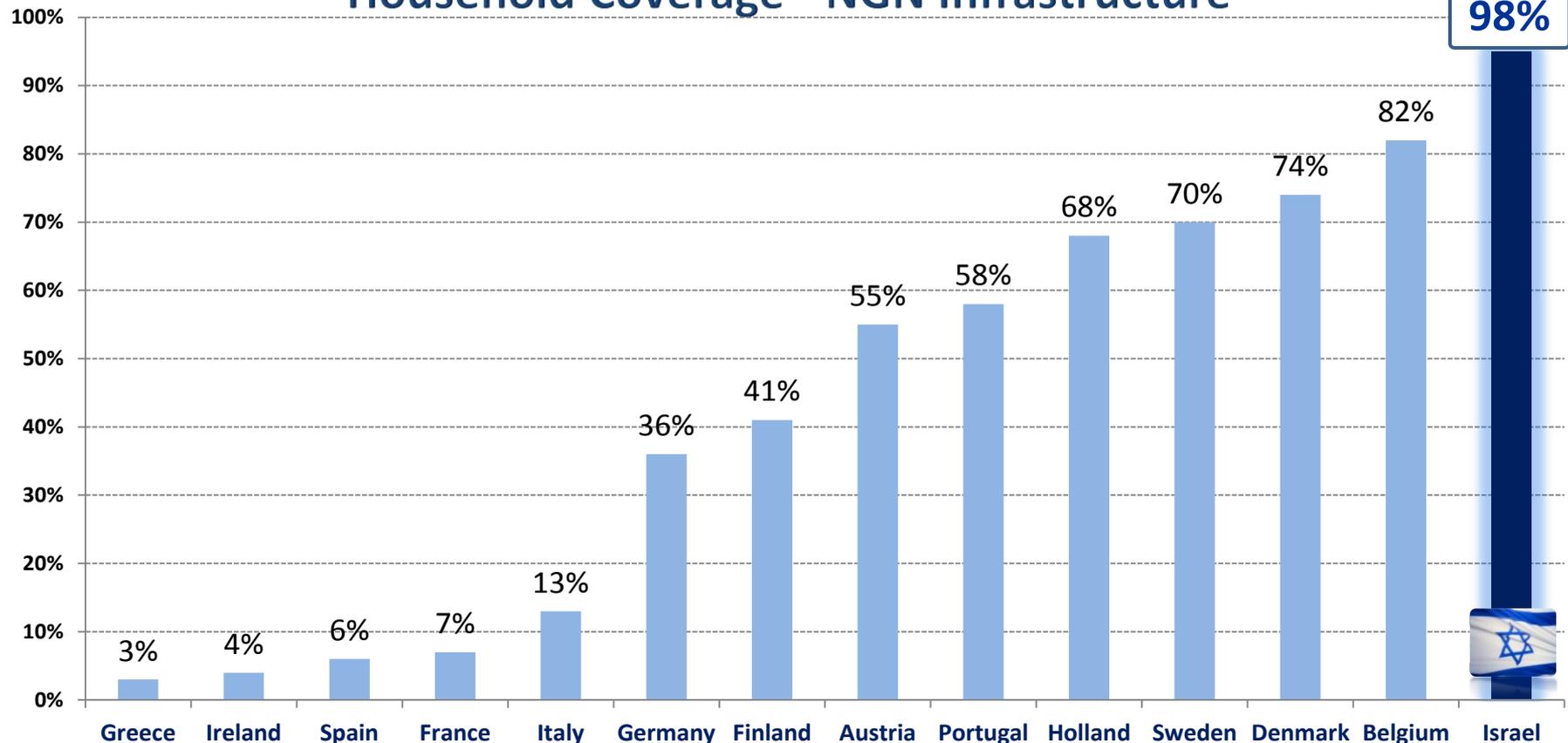


**Bezeq is uniquely positioned as the dominant provider of the full range of telecom products and services in Israel**

# A Global Leader in NGN Deployment

With the NGN, Israel is one of the leading countries in the world in terms of telecom infrastructure and advanced services

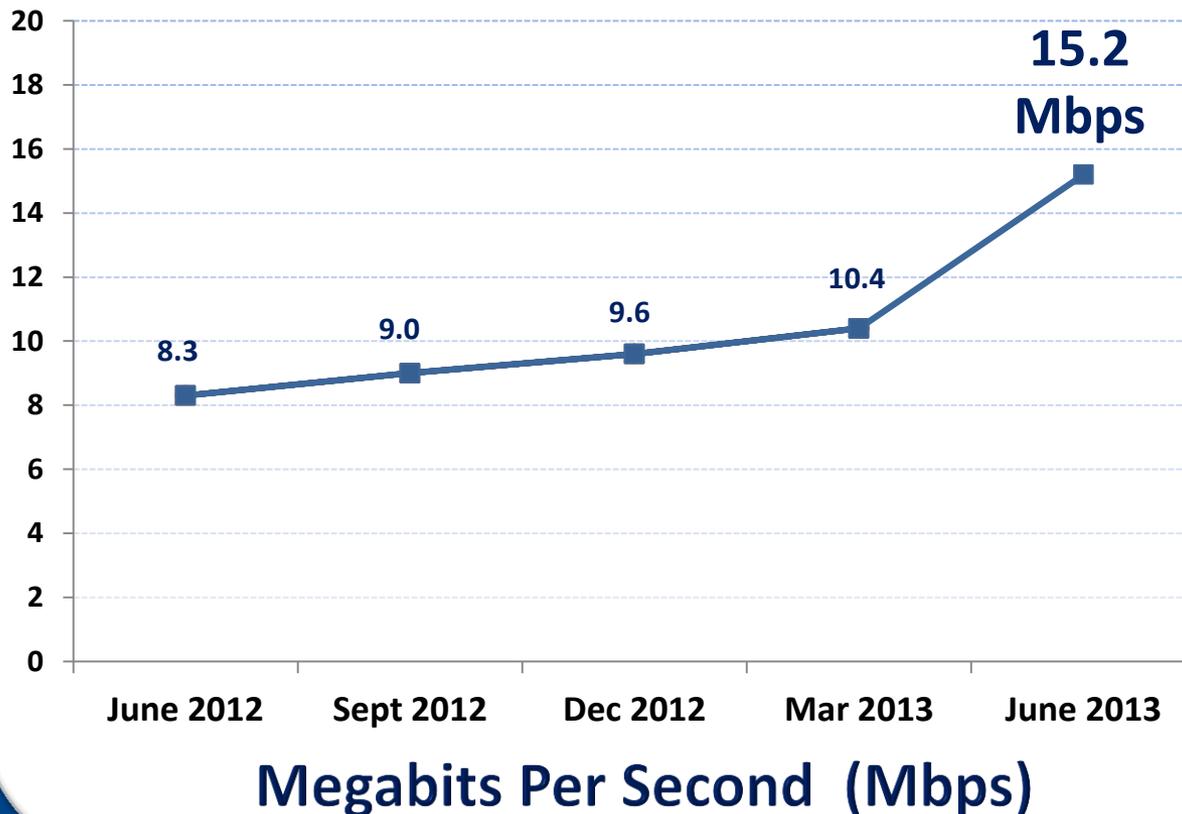
## Household Coverage - NGN Infrastructure



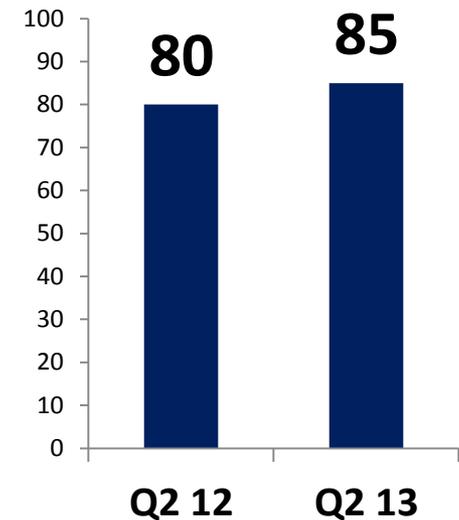
Note: Analysis as of December 2011. Bezeq data as of Dec 2012

# NGN Increasing Average Broadband Speeds

83% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)



**NGN**  
Next Generation Network

# Continuing to the next stage and expanding fiber deployment

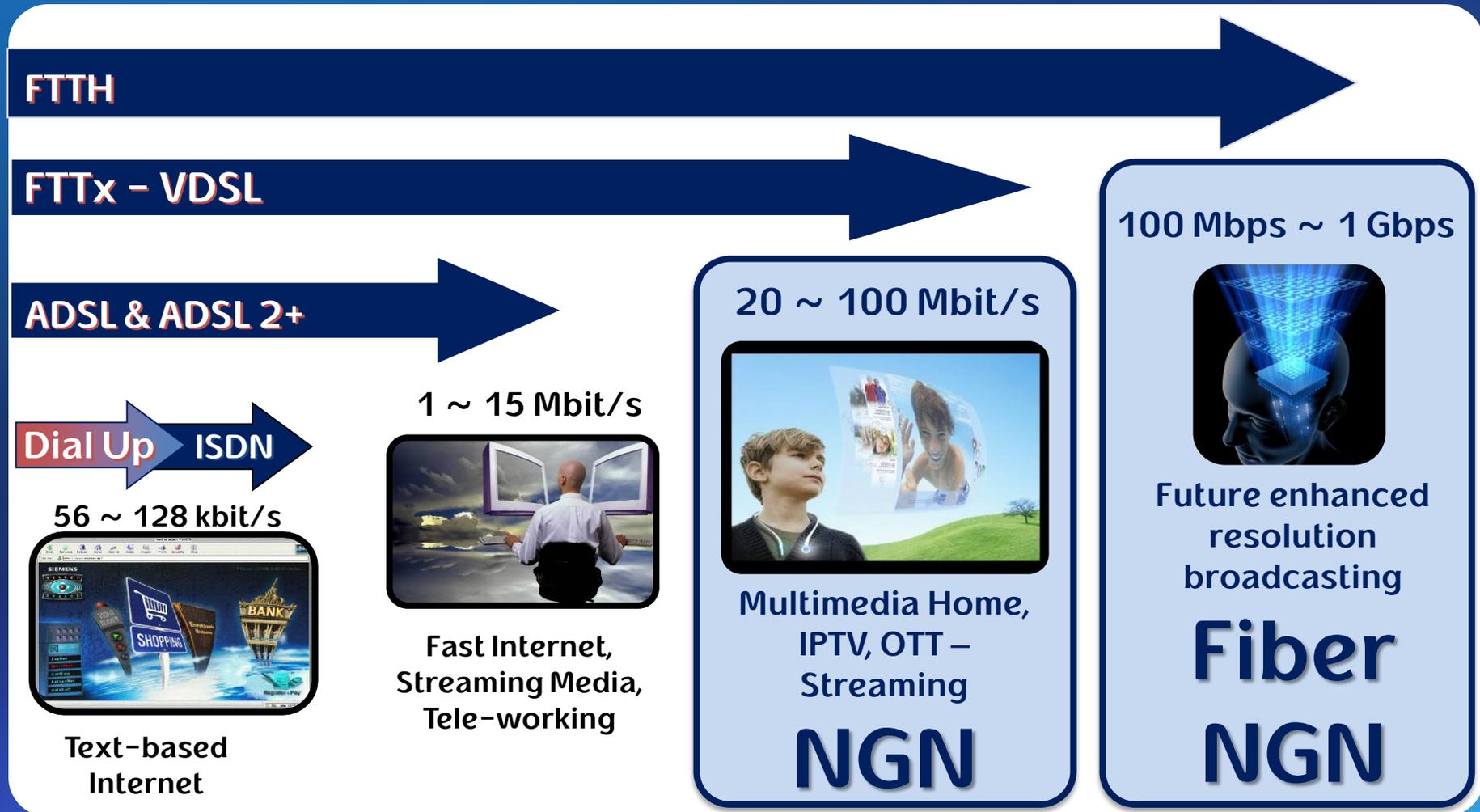


September 2009



August 2012

# After Bezeq completed the network revolution, the focus now turns to the evolution stage

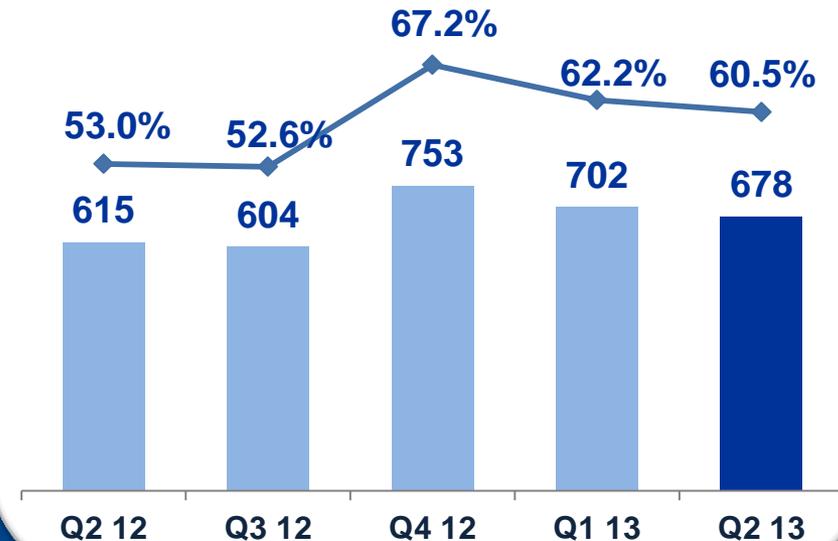


# Fixed Line – Revenue & EBITDA

Fixed Line Revenue  
NIS MM



Fixed Line EBITDA  
NIS MM



- Revenue in Q2 2013 declined 3.4% Y-o-Y mainly due to a decrease in telephony revenues partially offset by a 12.6% increase in Internet revenue.
- EBITDA in Q2 2013 increased 10.2% Y-o-Y to NIS 678 million primarily due to a decrease in operating and other expenses.



**Pelephone**

**Cellular**



- 2.70 million cellular customers
- 3.75 G speed HSPA technology
- Strong platform for advanced data services
- Highly competitive market



# Pelephone is a winner in a challenging competitive environment



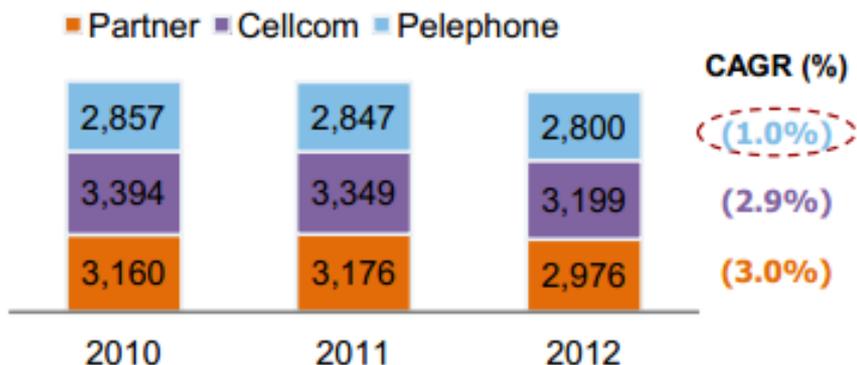
pelephone



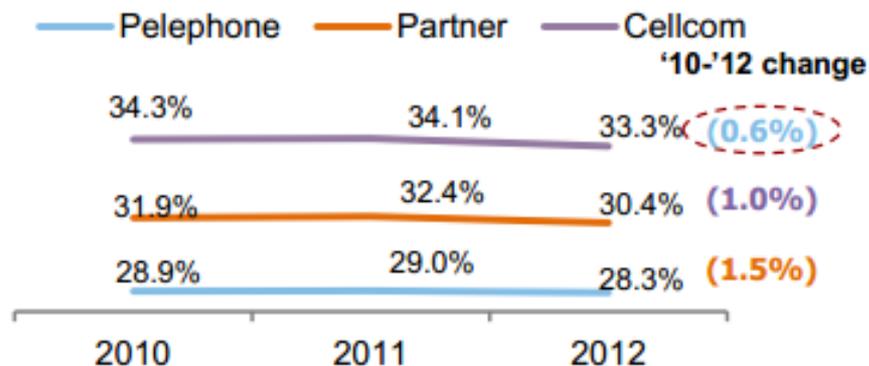
- Recent competitive dynamics and move to unlimited offerings resulted in lower ARPU and increased churn
- Pelephone applied a focused strategy around its advanced high quality network as a key differentiator
- Pelephone executed the most successful crisis strategy among mobile operators, allowing it to emerge from the 2011-2012 market pressure as the clear winner among incumbent operators
  - Lowest increase in churn
  - Smallest loss of subscribers market share
  - Best financial results and KPIs

# Pelephone outperformed its peers throughout the recent turmoil in the mobile market

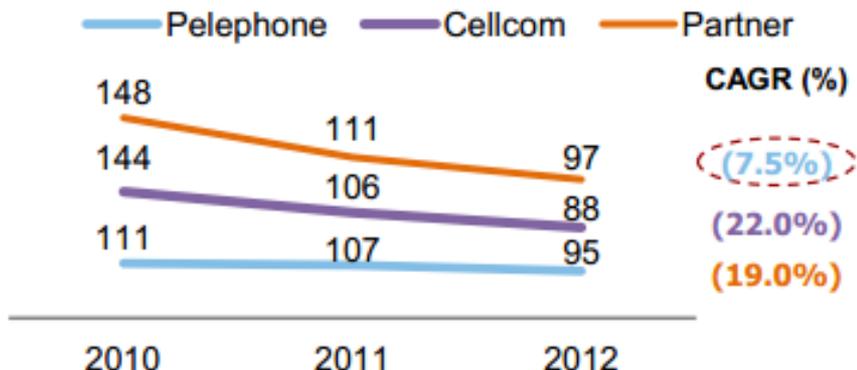
## No of subscribers (in 000's)



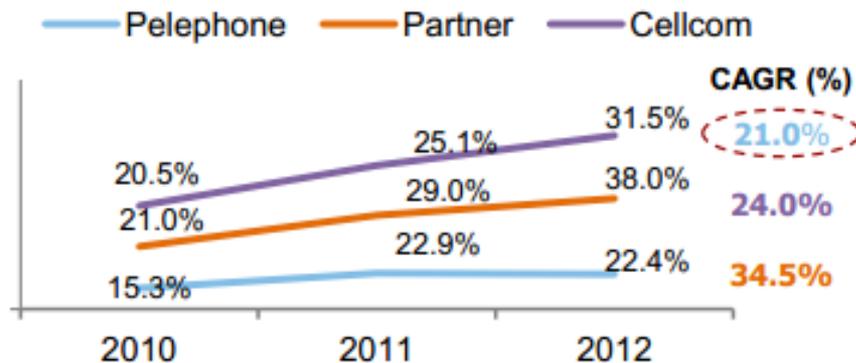
## Market shares(%)



## ARPU (NIS)



## Churn rate (%)



Source: Company filings

# Network Speed Leadership



## FASTEST iPHONE NETWORK WORLDWIDE

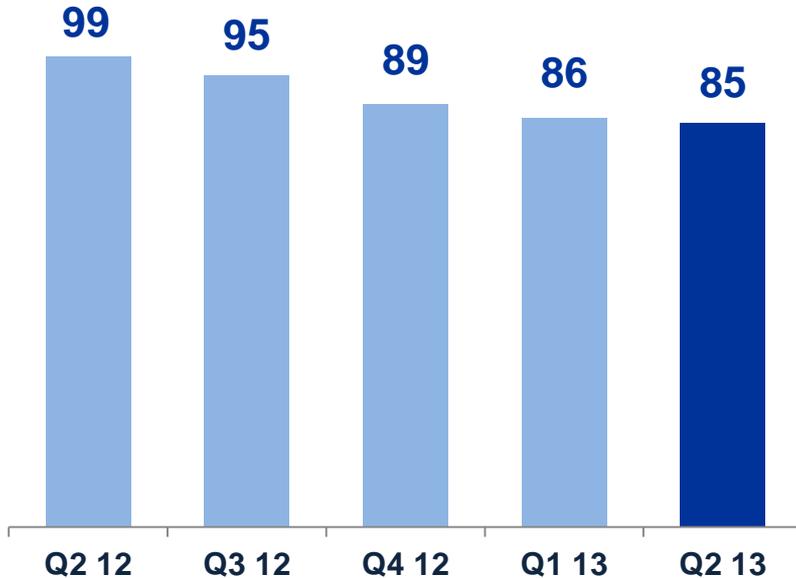


- Pelephone's HSPA was honored with the accolade of offering the highest average iPhone speed among 104 wireless carriers worldwide.

- Ookla Net Metrics

# Telephone KPIs

ARPU (NIS)



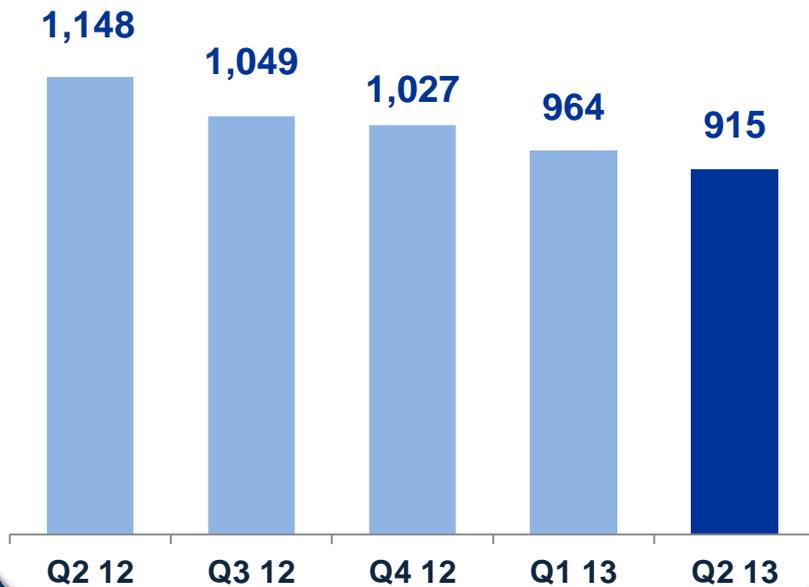
Minutes of Use (MOU)



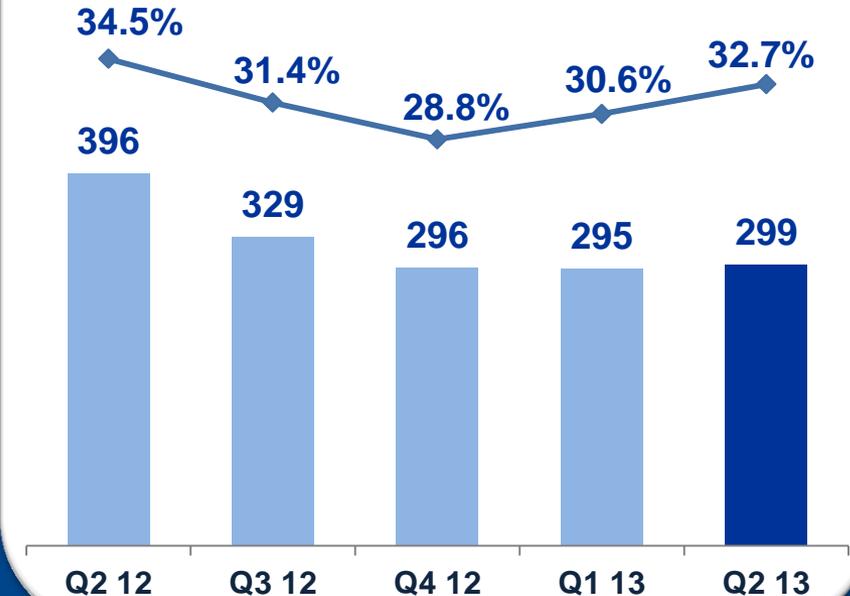
- ARPU decreased in Q2 2013 due to a reduction in tariffs as a result of increased competition.
- MOU increased in Q2 2013 driven by transition to unlimited call packages.

# Pelephone – Revenue & EBITDA

Pelephone Revenue  
NIS MM



Pelephone EBITDA  
NIS MM



- The decline in revenue and EBITDA were driven by an increased competitive environment resulting in a decrease in handsets sold and tariff erosion.



Bezeq  
International

**ISP / ILD / ICT**

# Bezeq International

## Israel's Leading Internet & International Telecom Provider

### ISP



- Leading broadband Internet service in Israel
- Approximately 39% Internet market share
- Cutting edge infrastructure
- Customized service plans
- Advanced IP services

### ILD



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

### ICT

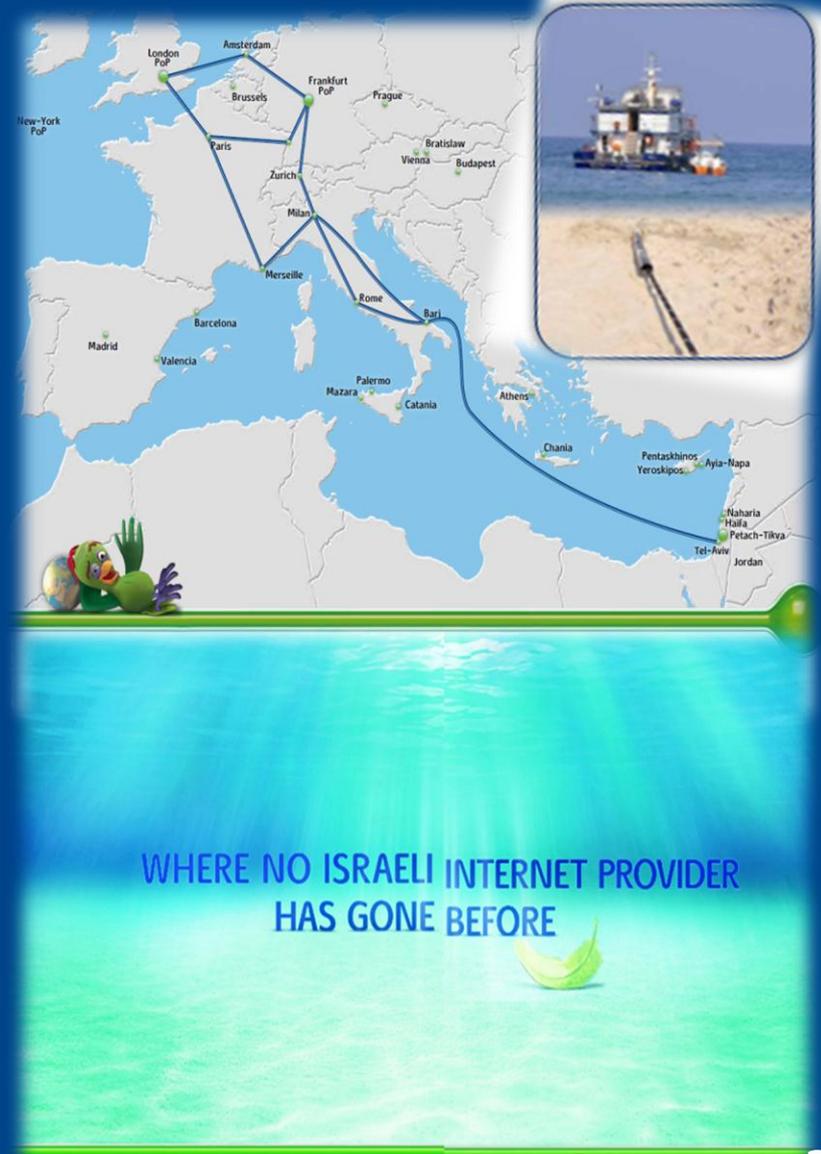


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

# Bezeq International's Submarine Cable

Bezeq International's new submarine cable provides a platform to:

- Better serve its customers via increased capacity and Internet speeds
- Increase revenue streams through additional capacity and services
- Reduce capital expenditures deriving from leasing capacity

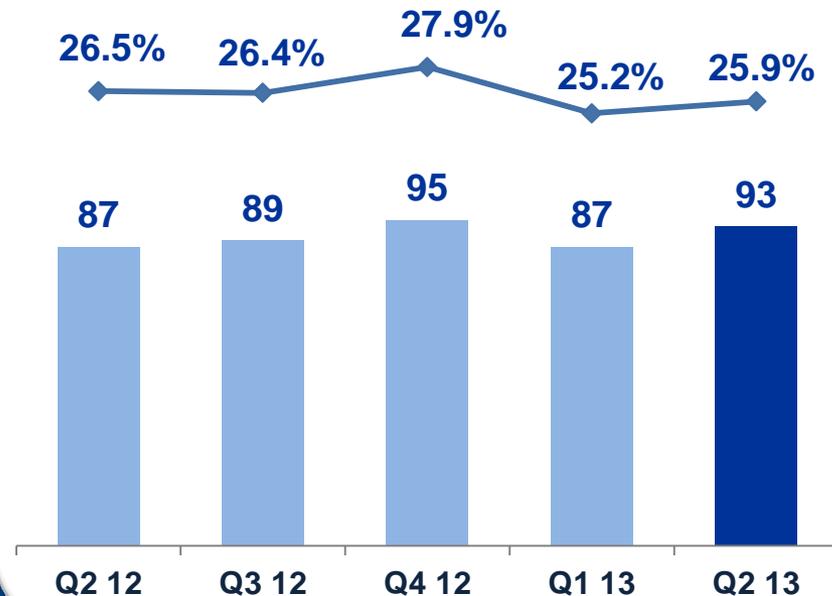


# Bezeq International – Revenue & EBITDA

Bezeq International Revenue  
NIS MM



Bezeq International EBITDA  
NIS MM



- Revenue in Q2 2013 increased 8.8% Y-o-Y to a record NIS 359 million due to growth in ICT and hubbing activities as well as in Internet services delivered across the submarine cable and NGN.
- EBITDA in Q2 2013 reached NIS 93 million, an increase of 6.1% Y-o-Y for an EBITDA margin of 25.9%.



**Satellite  
Television**



## A leader in designing the leisure & entertainment experience in Israeli home media

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*Israel's sole satellite provider and first  
television provider to offer digital  
broadcasts and interactive services*

- *Nationwide satellite availability*
- *583,000 subscribers*
- *39% market share*
- *142 channels of content*
  - *Including 39 Yes branded channels*

# Yes – Advanced Services

**yes.Max TOTAL**  
Max + HD + VOD

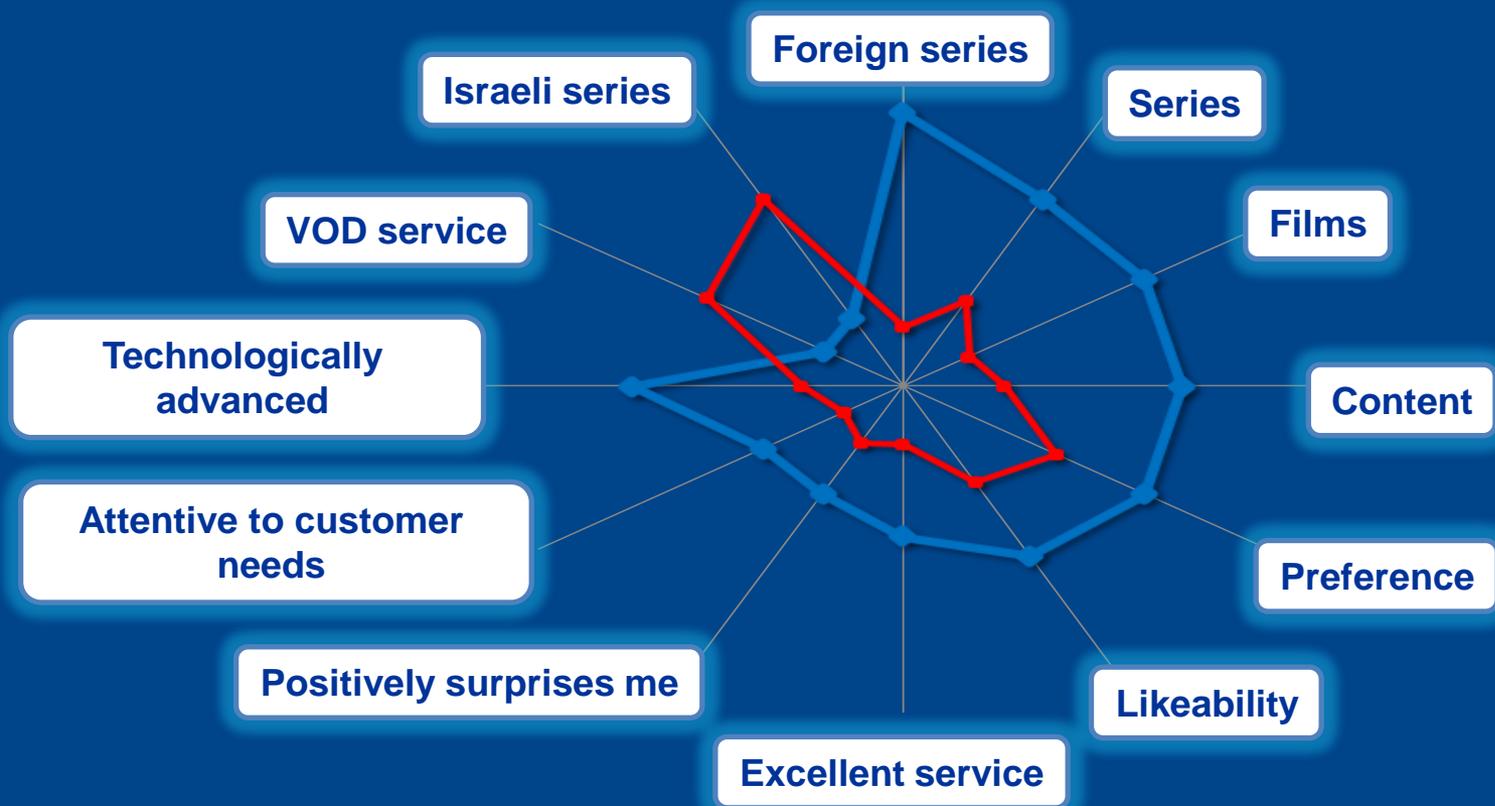
**yes.VOD**



## Ultimate Viewing Experience

- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

# Yes' Brand Image Significant Advantages

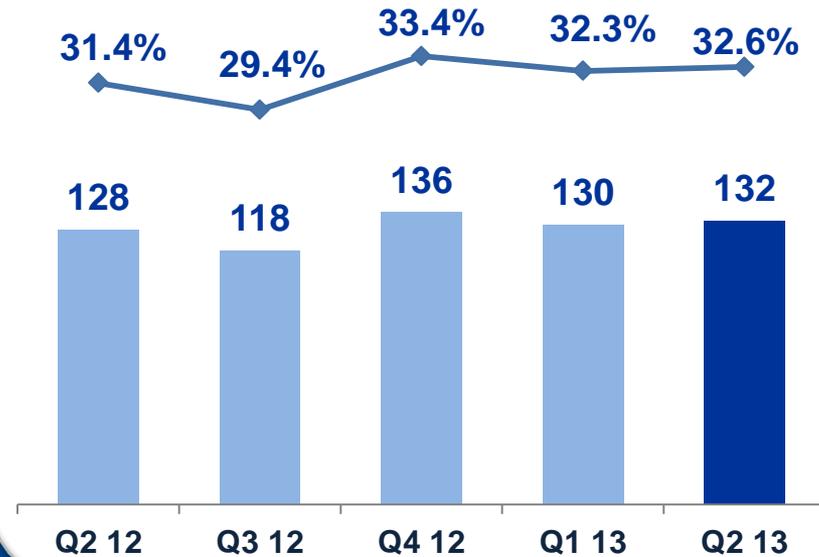


# Yes – Revenue & EBITDA

Yes Revenue  
NIS MM



Yes EBITDA  
NIS MM



- Revenue in Q2 2013 totaled NIS 404 million, a decrease of 1.2% Y-o-Y due to a decrease in revenue from content.
- EBITDA in Q2 2013 amounted to NIS 132 million, up 2.6% Y-o-Y primarily due to lower advertising royalty expenses.

# Market Changes Create New Opportunities for the Bezeq Group



**Cancellation of Structural Separation**

**Demand for Smartphones and Data Services**

**Increased Demand for High Speed Internet**

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



**Thank You**

For more information please visit  
**[www.bezeq.co.il](http://www.bezeq.co.il)**