



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

**Investor Presentation**  
**Q2 2015 Results**

# Forward-Looking Information and Statement

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**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.**

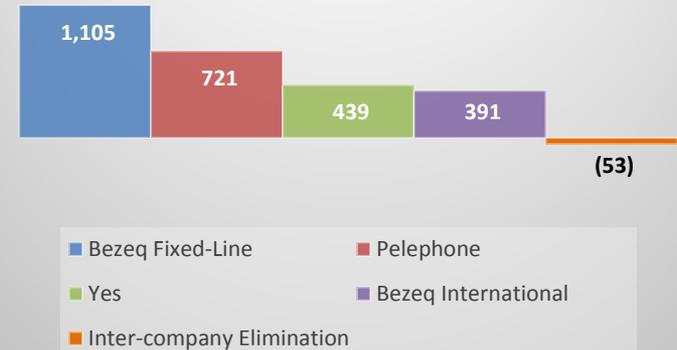
# BEZEQ

## The largest provider of telecommunications services in Israel

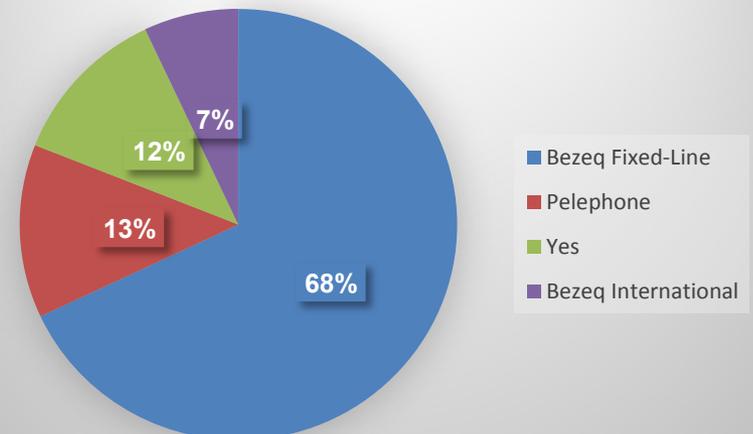
- LTM Revenue: NIS 9.27 billion
- Diversified portfolio in all TMT sub-markets
  - 2.20 million fixed customer lines
  - 2.57 million cellular customer lines
  - 1.42 million broadband lines
  - 638,000 Pay-TV customers
- Highly dynamic telecommunications market combining high penetration rates with considerable growth
- Strong financials in terms of profitability, cash generation and capital structure
- 1H 2015 cash dividend of NIS 844 million paid in May. 2H cash dividend of NIS 933 million to be paid in October (pending shareholder approval)

### Group Revenues - Q2 2015

(Total Revenues of NIS 2,603M)



### Group EBITDA - Q2 2015



# The Bezeq Advantage



## Strong market positions in all telecom sectors

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



## Advanced nationwide infrastructure

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



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

- Well balanced capital structure
- Deregulation policy offers future upside



## Capable, stable and experienced management team

# BEZEQ GROUP

Wide diversification of advanced telecom services



Fixed  
Line



Cellular



ISP, ILD, ICT



Pay TV

**walla!**

Internet Portal



Call Center

# Investments in Advanced Infrastructure

## Fixed Line



- Nationwide coverage of FTTC, all IP converged infrastructure
- High quality backhauling network for ISP services
- FTTB rollout to cover 1.3M households by end of 2015

## Telephone

HIGH SPEED GSM+

HSPA

- HSPA (High Access Packet Speed) cellular technology. Initial 4G launch in 2014, expansion in 2015
- Essential to accessing higher value segments of the mobile market
- Strong platform for rising Smartphone demand and advanced data services

## Bezeq International



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

# Regulatory Opportunities & Challenges

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



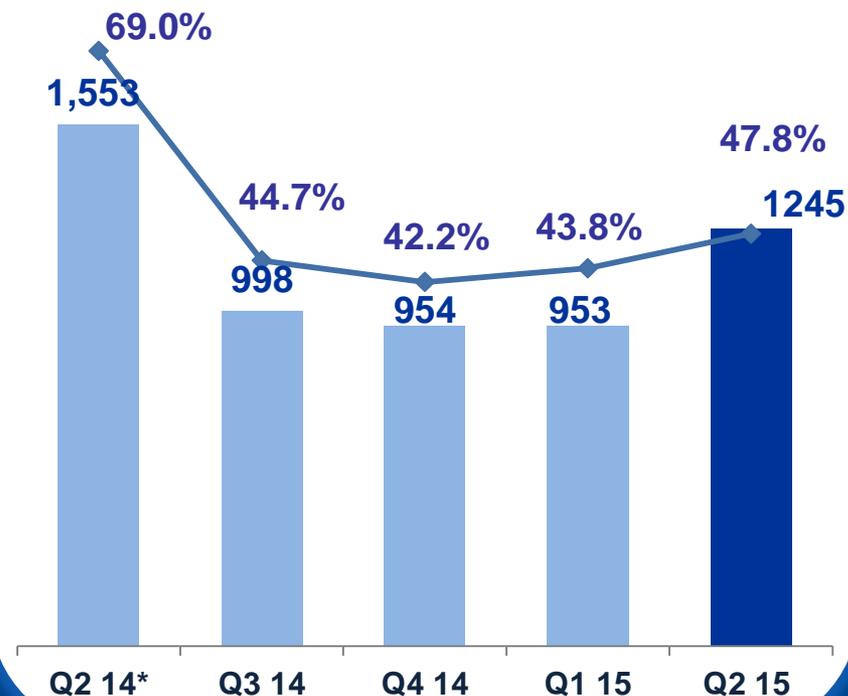
# Bezeq Group Financial Overview

# Bezeq Group – Revenue & EBITDA

Consolidated Revenue  
NIS MM



Consolidated EBITDA  
NIS MM

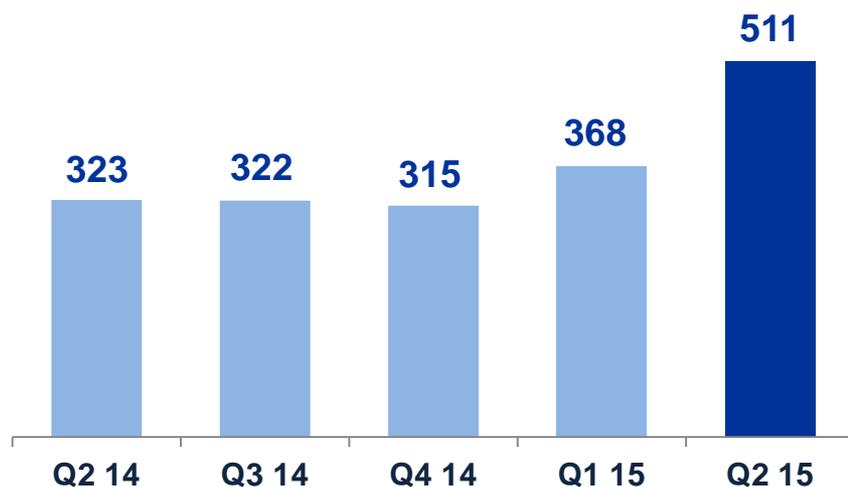


- Consolidated 2Q 2015 revenue increased 15.7% y-o-y primarily impacted by the first-time consolidation of yes revenues into overall Bezeq Group revenues in the quarter and also revenue increases at Bezeq Fixed-Line and Bezeq International.
- 2Q EBITDA decreased 19.8% y-o-y, due to the recording in the second quarter of last year of a gain from the sale of Coral Tel, partially offset by a provision for early retirement at Bezeq Fixed-Line.

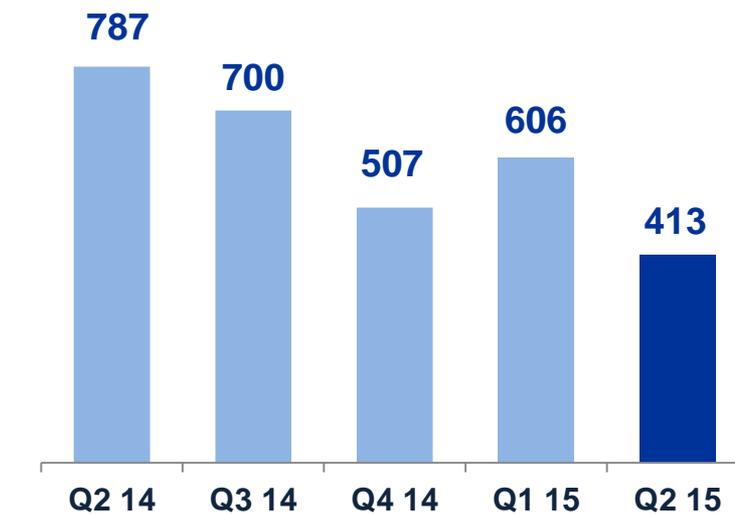
\*Includes gain from the sale of Yad 2

# Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx  
NIS MM



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



1. Free cash flow defined as Cash Flow from Operations – Net CapEx

- The Group's higher level of investments in 2Q 2015 was primarily due to a payment by Pelephone for LTE 4G frequencies as well as the first-time consolidation of yes investments.
- Free cash flow in 2Q 15 decreased 47.5% y-o-y primarily due to the increase in investments.

# Bezeq Group – 2015 Guidance

<b>Net profit attributable to shareholders:</b>	<b>Approximately NIS 1.5 billion</b>
<b>EBITDA:</b>	<b>Approximately NIS 4.2 billion</b>
<b>Free cash flow :</b>	<b>Approximately NIS 2.0 billion</b>

The Group's outlook for 2015 is based on the existing information known to the Bezeq Group today. There is no change compared with the outlook published in the Company's 2014 annual report dated December 31, 2014 and includes the execution of a transaction for the acquisition of all of the holdings in yes as well as the signing of an amendment to the collective labor agreement.

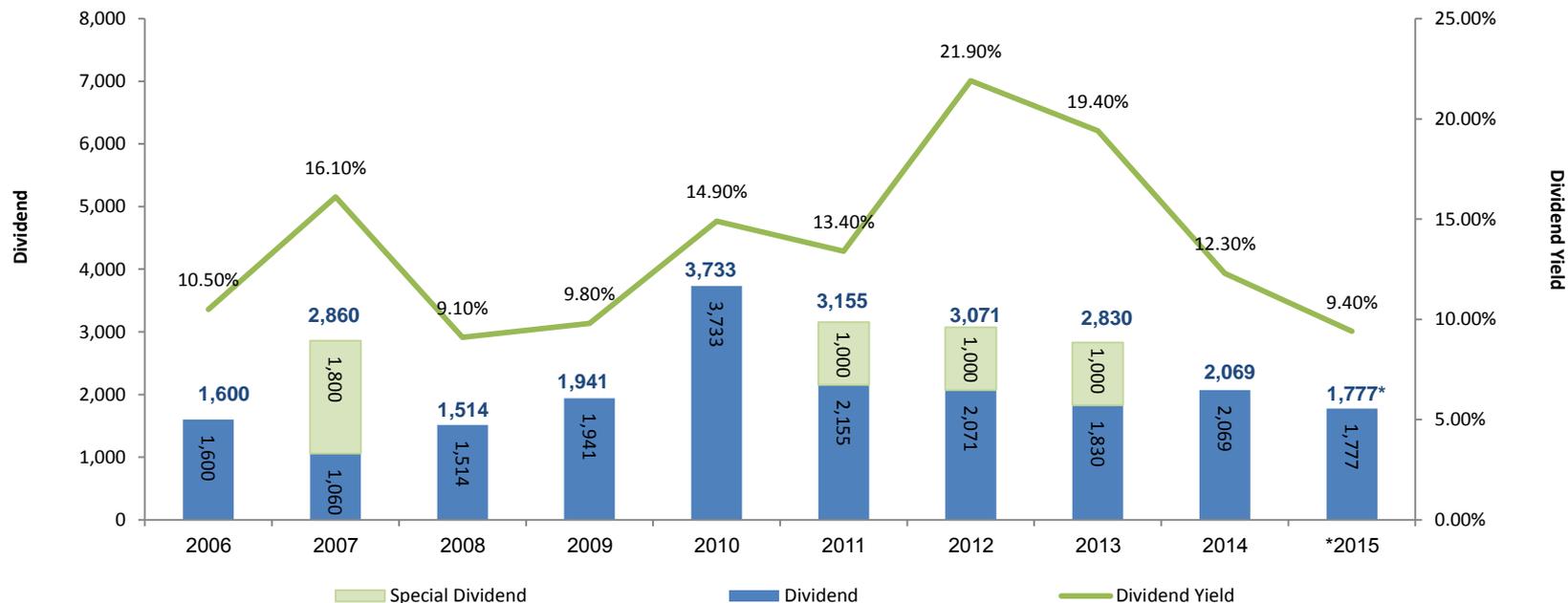
The Company's forecasts detailed above are forward-looking information, as defined in the Securities Law, and are based on assessments, assumptions and expectations of the Company. The forecasts do not include the effects of a provision for the early retirement of employees.

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 2015. Actual results may differ from those assessments, taking into account changes in the above mentioned factors and in the business conditions as well as in the impact of regulatory decisions, technological changes, developments in the communications market, and realization of risk factors detailed in the Group's periodic report for the year 2015.

Free cash flow defined as Cash Flow from Operations– Net CapEx

# Sector Leading Dividend Policy

## Bezeq Group Dividends by Year (NIS MM)



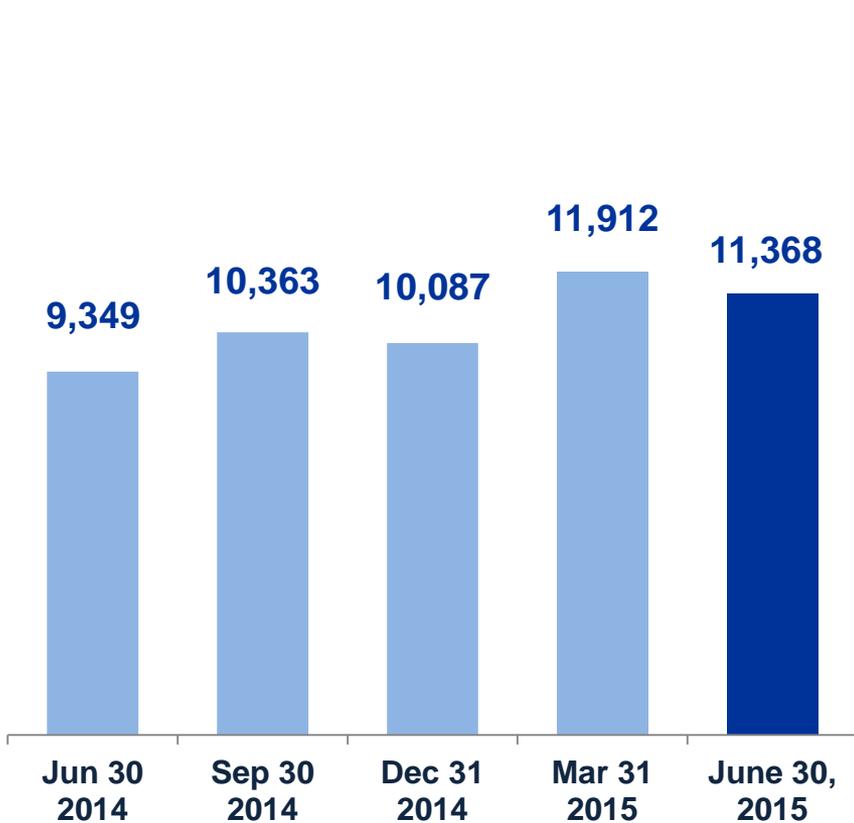
**Dividend Policy: 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis:**

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

\*Includes 2H 2015 dividend of NIS 933m pending shareholder approval.

# Bezeq Group – Debt\*

Group Gross Debt (NIS MM)



Net Debt (NIS MM) — Net Debt / EBITDA



\* Includes consolidation of yes as of March 31, 2015



**Fixed Line**

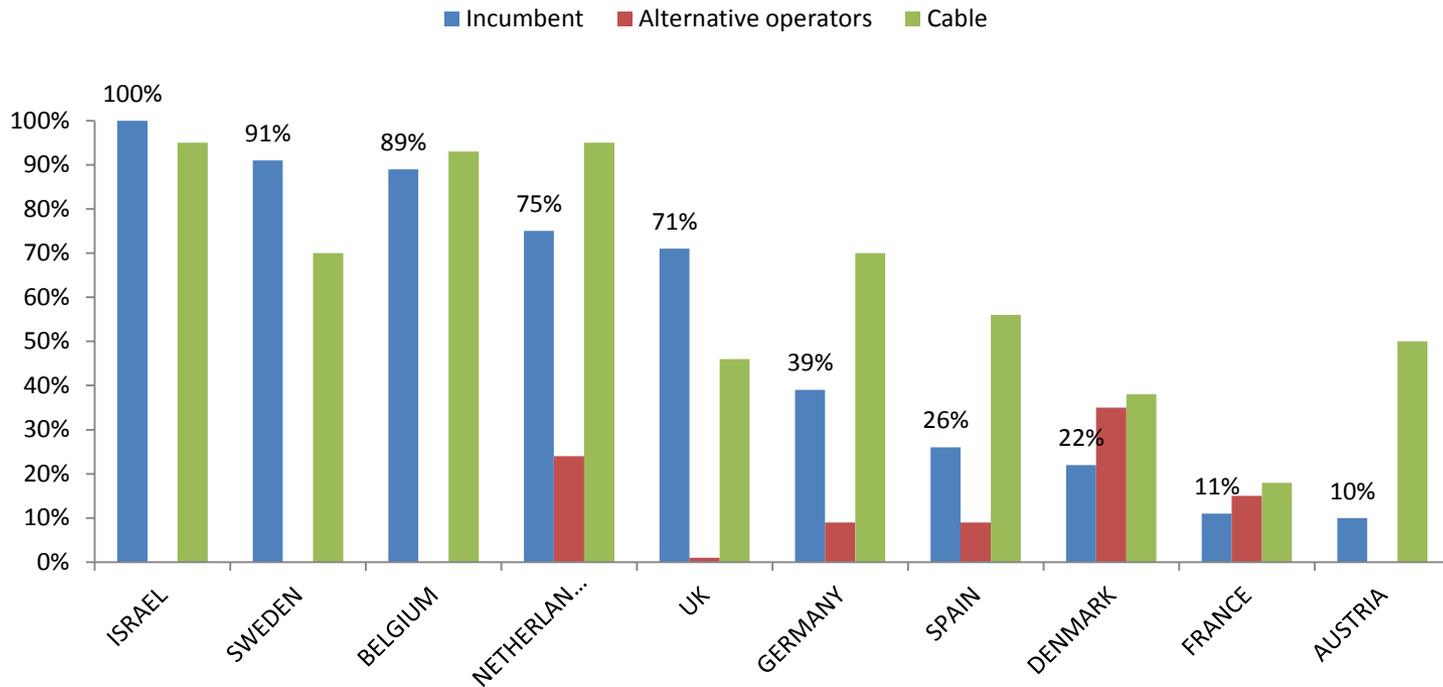
# Bezeq Fixed-Line

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

- ✓ **Leading broadband provider in Israel with approximately 65% market share, growing by five percentage points in the last two years**
- ✓ **More than 100k broadband customers added in last 12 months, representing an 8% increase y-o-y**
- ✓ **Broadband ARPU growth fueled by continuous bandwidth upgrades**
- ✓ **Leading provider of corporate solutions in Israel**
- ✓ **Significant and stable business market share supported by differentiated offering**
- ✓ **Stabilizing trend in number of fixed access lines and ARPL**

# A Global Leader in Advanced Fiber Based NGN Deployment

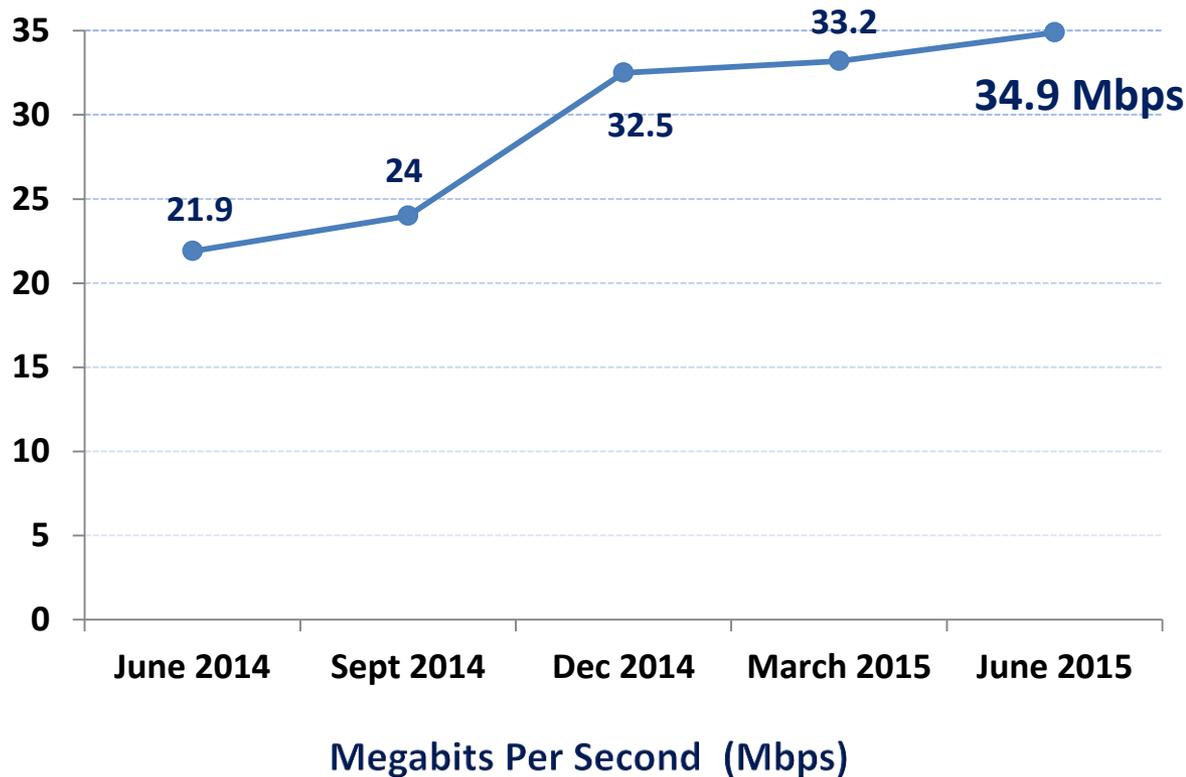
## Household Coverage



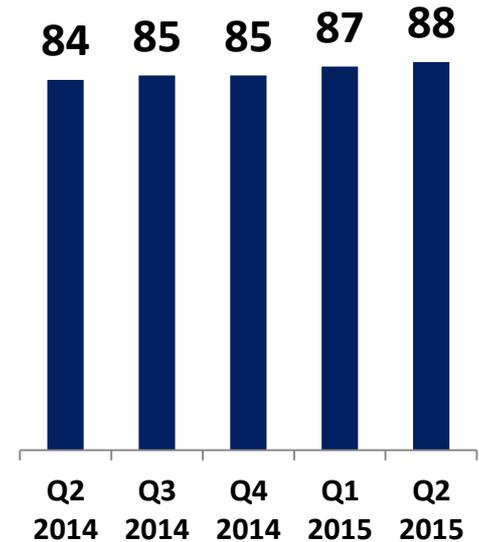
Source: Cullen Research, November 2014

# NGN enables ongoing increases in bandwidth and ARPU growth

59% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)

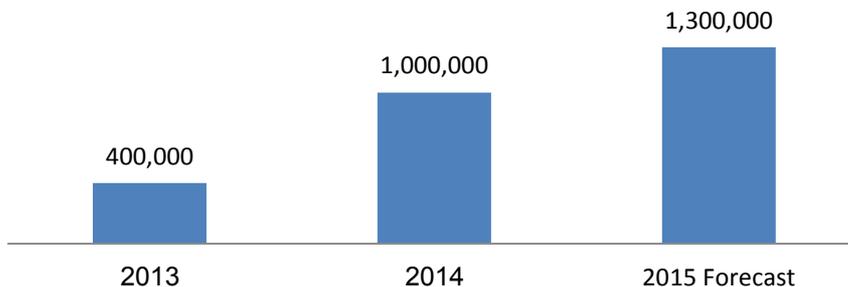


# Fiber-to-the-Building Rollout

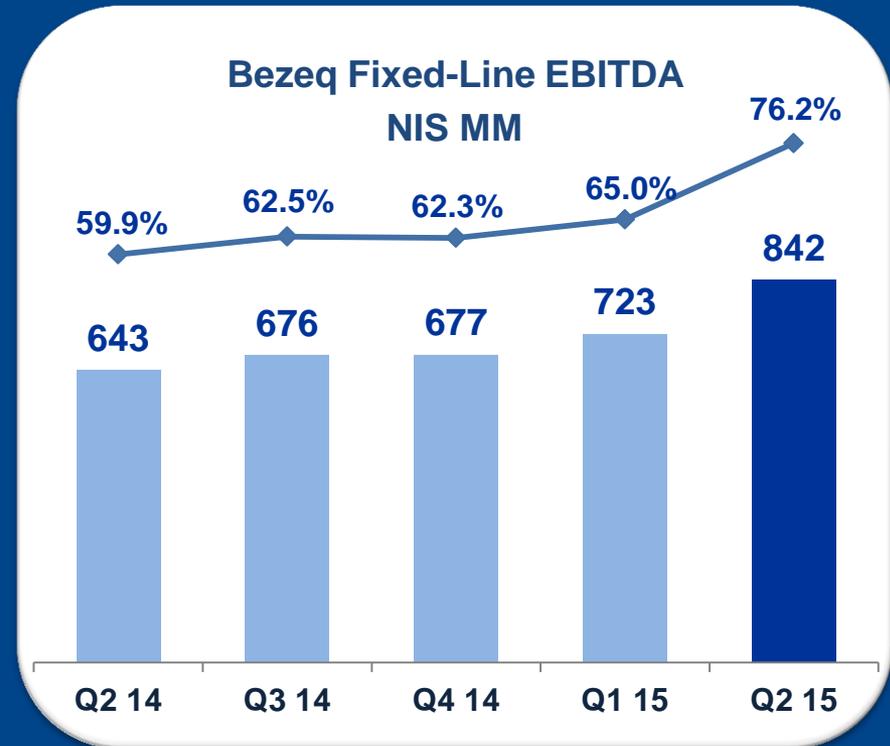
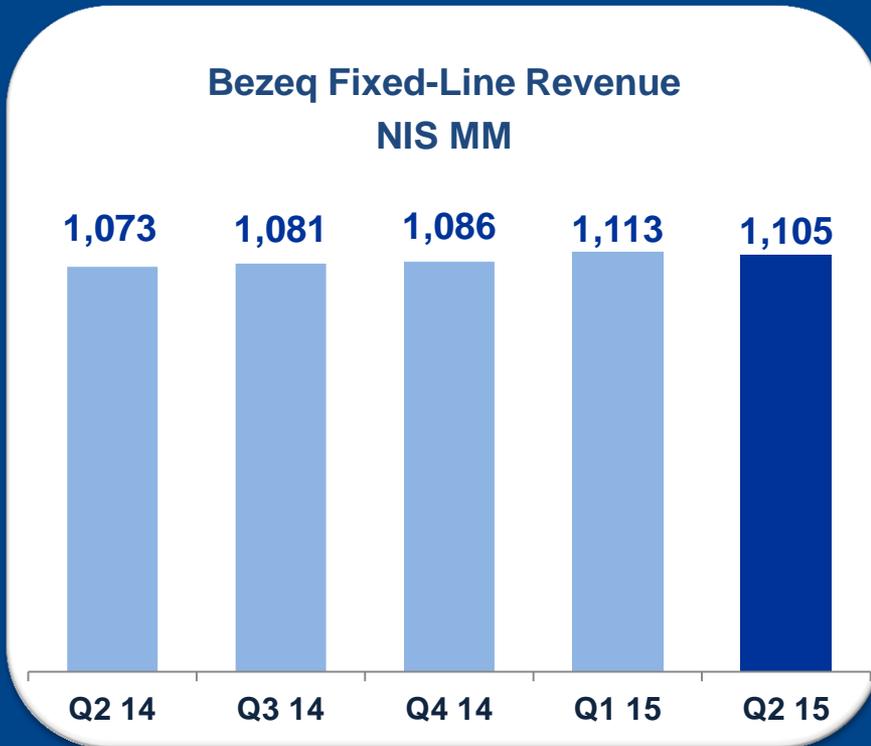


Bezeq Fixed Line expects to reach **an additional 300k homes in 2015** representing a total of **1.3m homes** passed or **approximately 60% of the Israeli population**

FTTB Homes Passed



# Bezeq Fixed-Line – Revenue & EBITDA



- Revenues increased 3.0% for 2Q 15 compared to the year ago quarter primarily driven by growth in revenues from broadband Internet services as well as transmission and data communication services.
- EBITDA increased 30.9% in the second quarter versus 2Q14 primarily due to increased capital gains from real estate sales. After adjusting for other income/expenses, adjusted EBITDA increased 7.0%.



**Pelephone**

**Cellular**

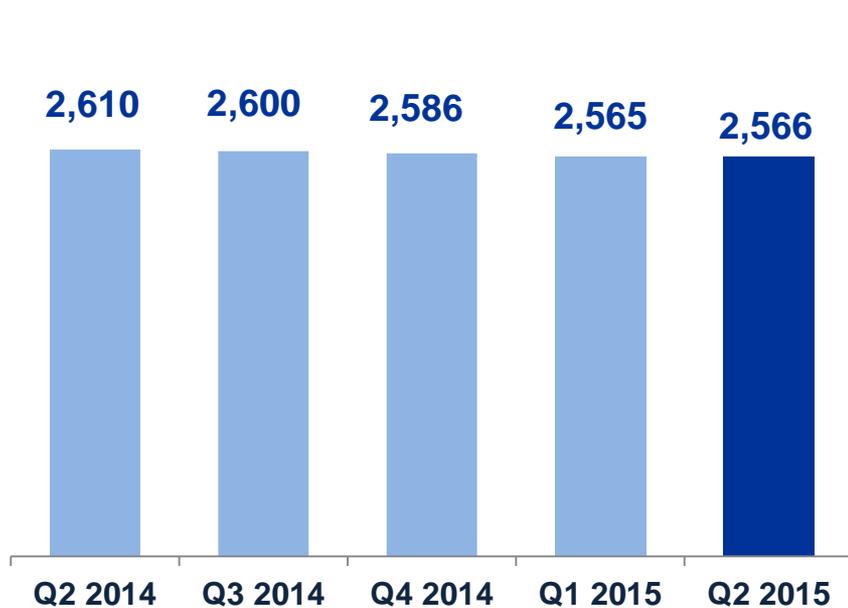


- 2.56 million cellular customers
- Nationwide HSPA network
- Wide deployment of 4G (LTE) network in 2015
- Strong platform for advanced data services
- Highly competitive market

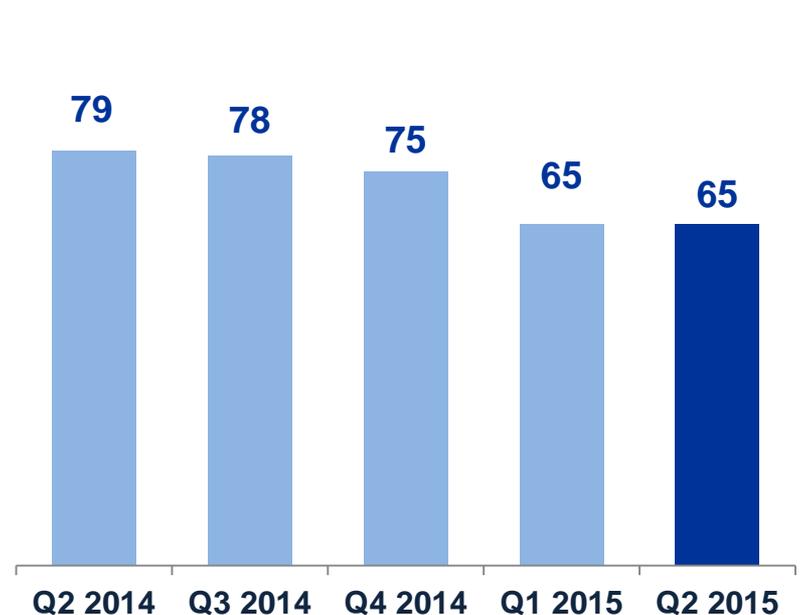


# Telephone KPIs

Subscribers (in 000's)



ARPU (NIS)



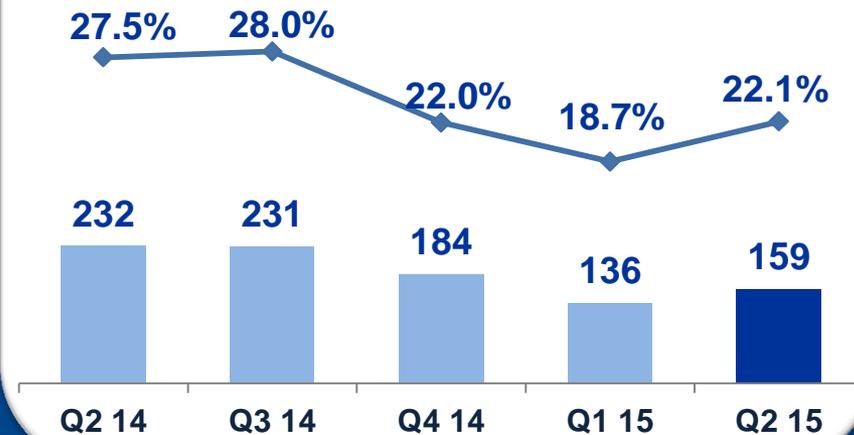
- Cellular subscribers as of June 30, 2015 were stable sequentially primarily due to customer retention measures as well as the launching of new prepaid plans.
- ARPU in 2Q 15 was stable sequentially. The decrease compared to 2Q14 was primarily due to the termination of the hosting agreement with Hot Mobile.

# Pelephone – Revenue & EBITDA

Pelephone Revenue  
NIS MM



Pelephone EBITDA  
NIS MM



- Revenue and EBITDA declined 14.5% and 31.5% respectively y-o-y driven by lower revenues from cellular services primarily due to the termination of the hosting agreement with Hot Mobile as well as increased competition in the cellular market.
- After adjusting for the revenues from the hosting agreement with Hot Mobile, EBITDA decreased 11.7% compared to 2Q14.



**ISP / ILD / ICT**

# Bezeq International

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

## ISP



- Leading broadband Internet service in Israel
- Over 42% Internet market share
- Cutting-edge infrastructure
- Customized service plans
- Advanced IP services

## ILD



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

## ICT



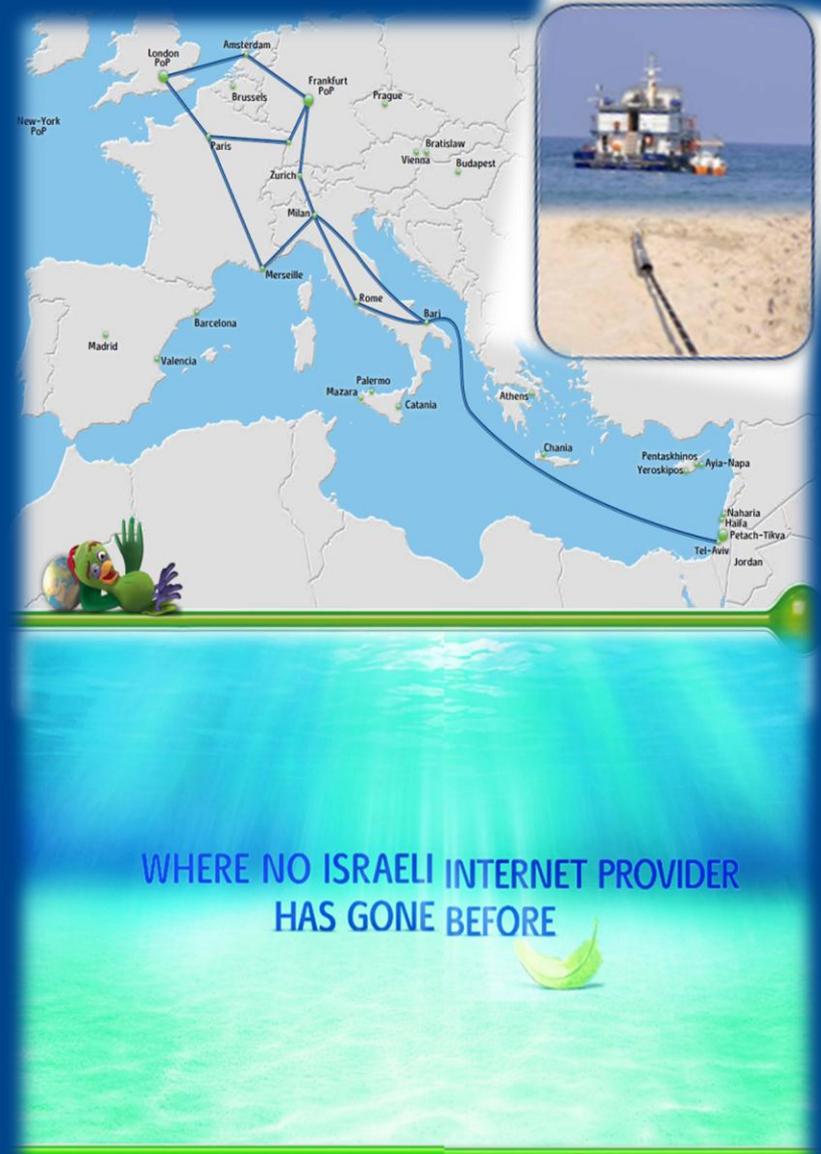
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

# Bezeq International's Submarine Cable

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

Bezeq International's submarine cable provides a platform to:

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

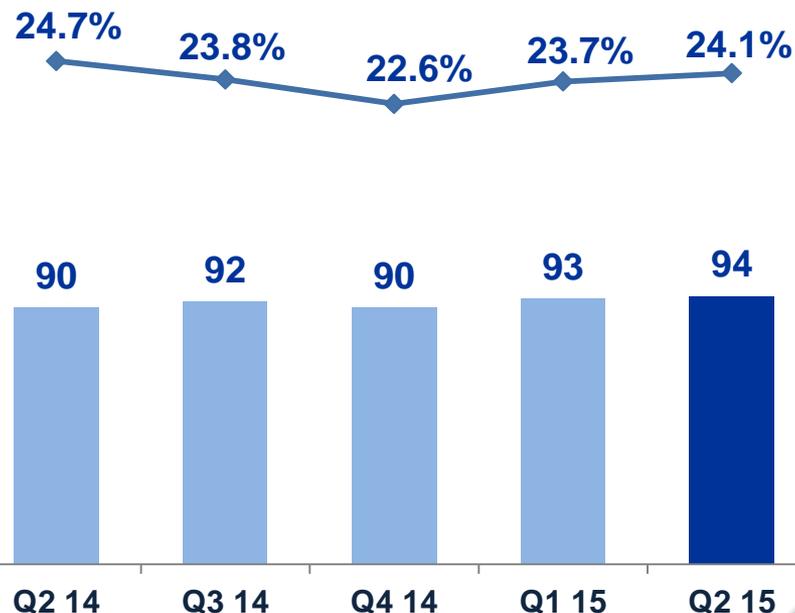


# Bezeq International – Revenue & EBITDA

Bezeq International Revenue  
NIS MM



Bezeq International EBITDA  
NIS MM



- Revenue in 2Q 15 increased 7% y-o-y to 391 million due to increased revenues from business communications and cloud services, increased international hubbing and data activities as well as successful leveraging of the submarine cable infrastructure.
- EBITDA in 2Q 15 rose 4.4% y-o-y to NIS 94 million, for an EBITDA margin of 24.1%.



**Multi-Channel  
DTH Provider**



## Leading brand for content, innovative applications and customer service

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- *Fully digital with nationwide deployment*
- *Over 41% market share*
- *Growing customer base with stable ARPU, supported by increased revenues from VOD and other advanced services*
- *Rich content offering with extensive agreements with first-tier content producers*
- *Over 160 channels including 39 Yes branded channels*



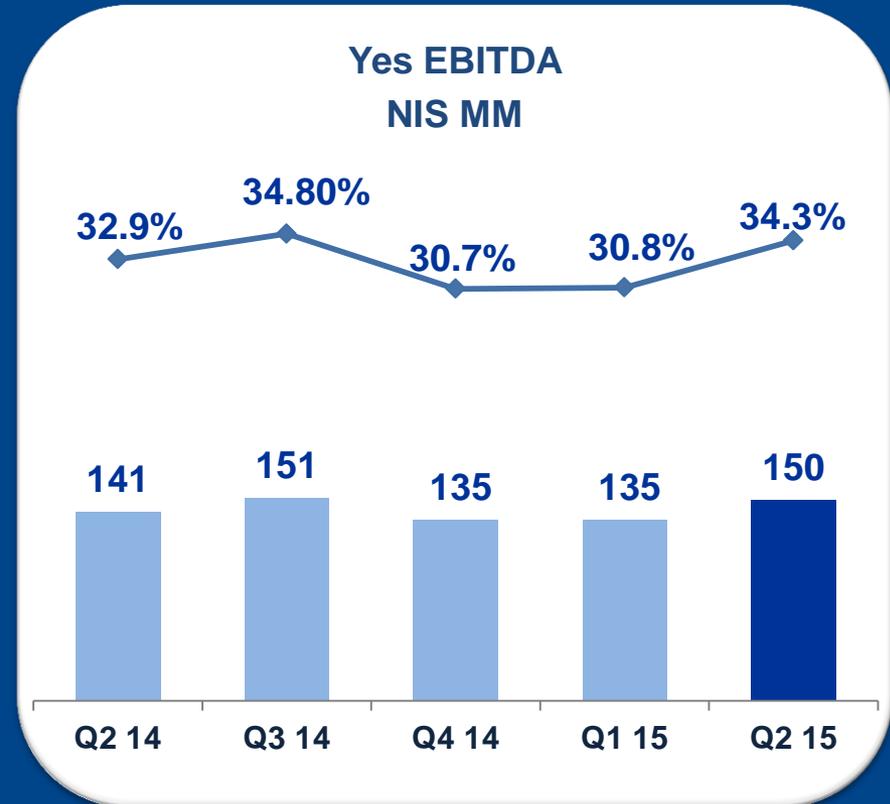
- Enables access to recordings from another set-top box



- iOS & Android App, streams 50 channels and VOD on the go

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

# Yes – Revenue & EBITDA



- Revenues in 2Q 15 increased 2.7% y-o-y to NIS 439 million, due to the addition of 4,000 subscribers.
- EBITDA in 2Q 15 increased 7.0% y-o-y to NIS 150 million. EBITDA margin was 34.3% for the second quarter.

# Market Changes Create New Opportunities for the Bezeq Group



**Removal of  
Structural Separation**

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

**Increased Demand  
for High Speed  
Internet**

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

# Confidently Facing the Future

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

**Expanding our innovative product offering to increase revenues, stickiness and expand Company's footprint - TV Everywhere, advanced STB, Cloud, Smart Home, M-Payments, M2M, etc.**

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

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

**Maintaining quality personnel and strong management**

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



**Thank You**

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