



BEZEQ
(TASE: BEZQ)

Investor Presentation
Q2 2014 Results

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

- LTM Revenue: NIS 9.37 billion
- Most comprehensive range of offerings
 - 2.21 million fixed customer lines
 - 2.61 million cellular customer lines
 - 1.31 million broadband lines
 - 613,000 Pay-TV customers
- Highly dynamic market with one of the highest household broadband and mobile penetration rates
- 2013 dividends paid to shareholders totaling NIS 2.83 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



Fixed
Line



Cellular



ISP, ILD, ICT



Pay TV

walla!

Internet Portal



Call Center

Investments in Advanced Infrastructure

Fixed Line



- Most advanced communications network in Israel
- FTTC, all IP, infrastructure for consumer and business customers covering 99% of Israeli households
- FTTB rollout expected to cover 1M households by end of 2014

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



- 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



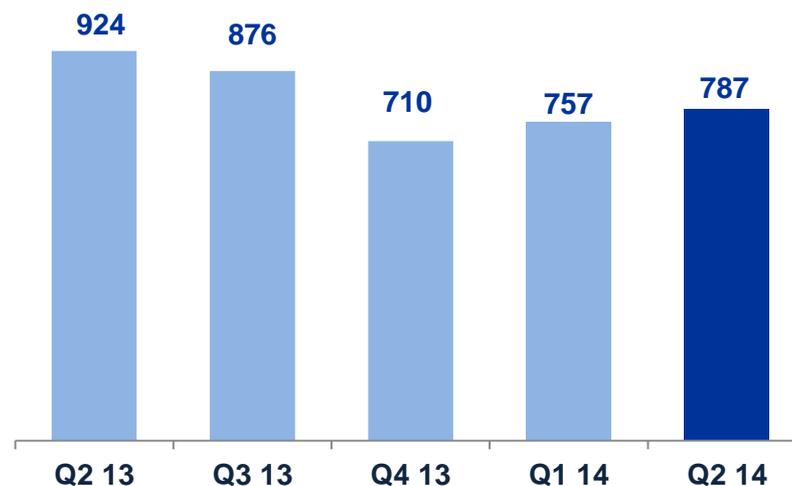
- Consolidated 2Q 2014 revenue decreased 4.3% y-o-y primarily due to lower revenues from cellular services due to the challenging competitive environment in the cellular market as well as a reduction in the revenues of Bezeq Fixed Line which were influenced by a decrease in fixed call termination rates.
- 2Q 2014 EBITDA increased 45.1% y-o-y, primarily due to a NIS 582m one-time gain from the sale of Yad2.

Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx
NIS MM



Consolidated Free Cash Flow ^{(1) (2)}
NIS MM



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

- Capex in 2Q 2014 increased 7.3% y-o-y, influenced by the ongoing rollout of Bezeq Fixed Line's advanced fiber-to-the-building (FTTB) network deployment.
- Free cash flow in 2Q 2014 decreased 14.8% y-o-y due to an increase in capex as well as a decrease in proceeds from the sale of real estate.

Bezeq Group – 2014 Guidance

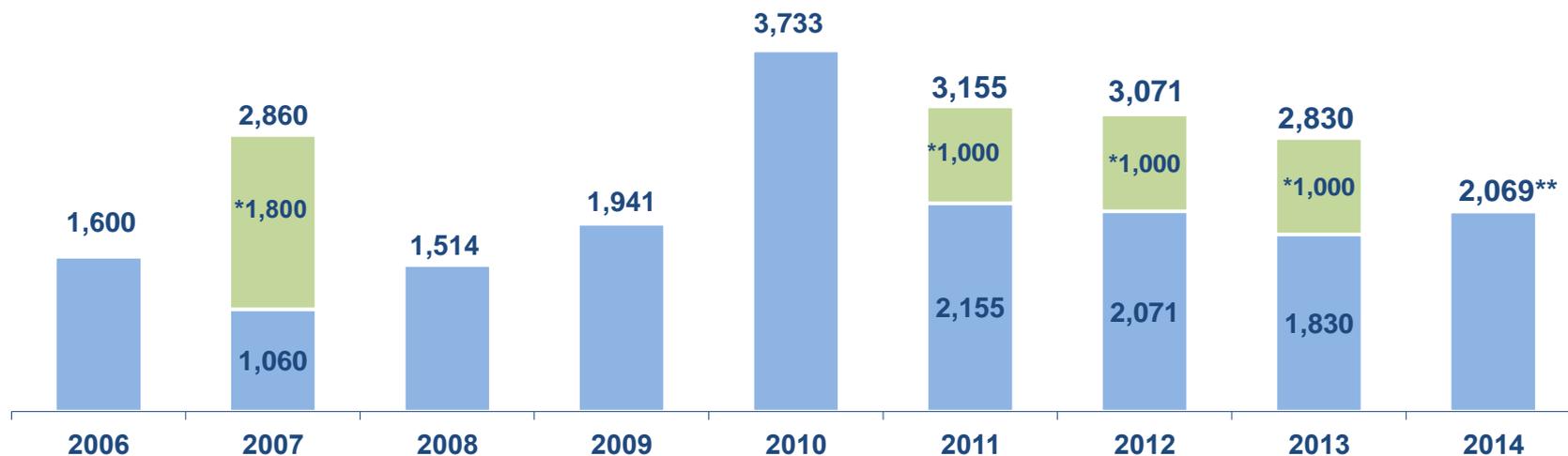
Net profit attributable to shareholders:	Approximately NIS 2.0 billion
EBITDA:	Approximately NIS 4.5 billion
Free cash flow:	Approximately NIS 2.5 billion

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 of a provision for an employee retirement plan that may be adopted (beyond the decisions that have already been made by the Company detailed in section 2.9.3 of the periodic report update), investments, to the extent that there may be such, in the acquisition of frequencies for a 4G network (LTE), and the effects of a potential acquisition of DBS.
- b. The forecast is 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 2014. 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 2013.

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)



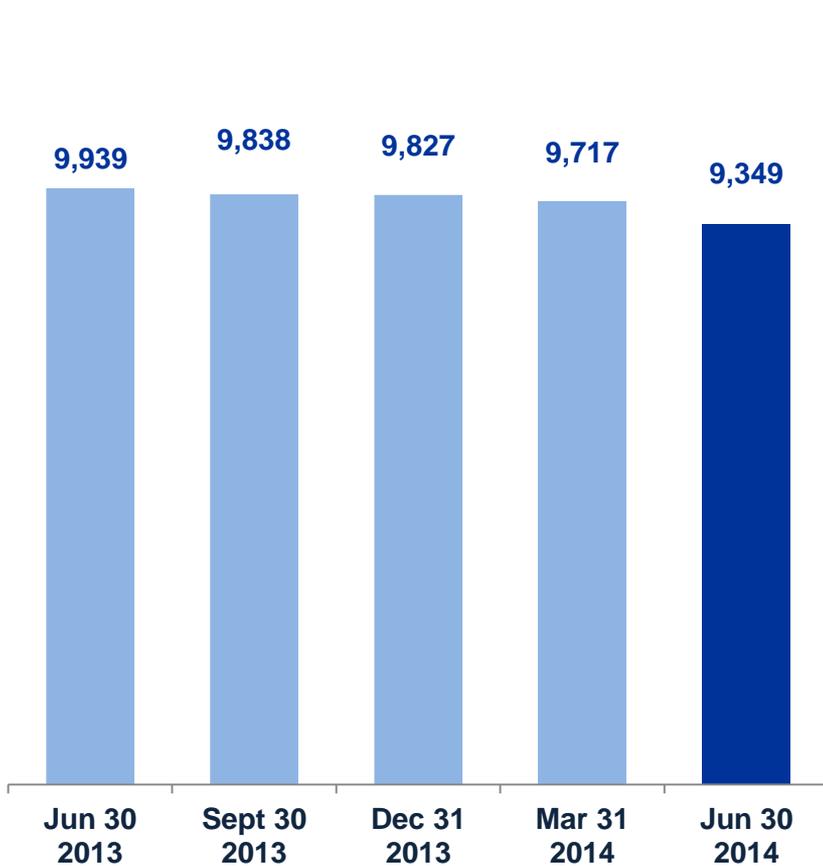
* Special dividend

** Of which NIS 1.267 billion pending shareholder approval

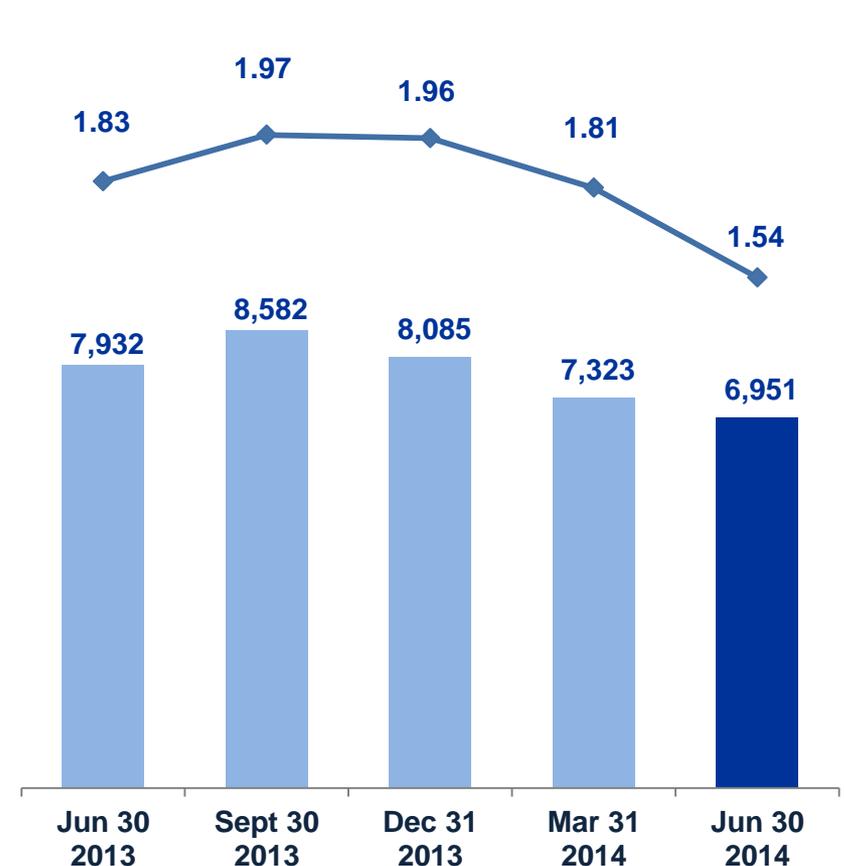
- Regular Dividend Policy: 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis.
- Board of Directors recommended the distribution of NIS 1.267 billion as a cash dividend to shareholders (approximately NIS 0.46 per share). Pending shareholder approval, the ex-dividend date is September 15, 2014 and payment date is October 2, 2014.

Bezeq Group – Debt

Group Gross Debt (NIS MM)



Net Debt (NIS MM) — Net Debt / EBITDA



Regulatory Opportunities & Challenges



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



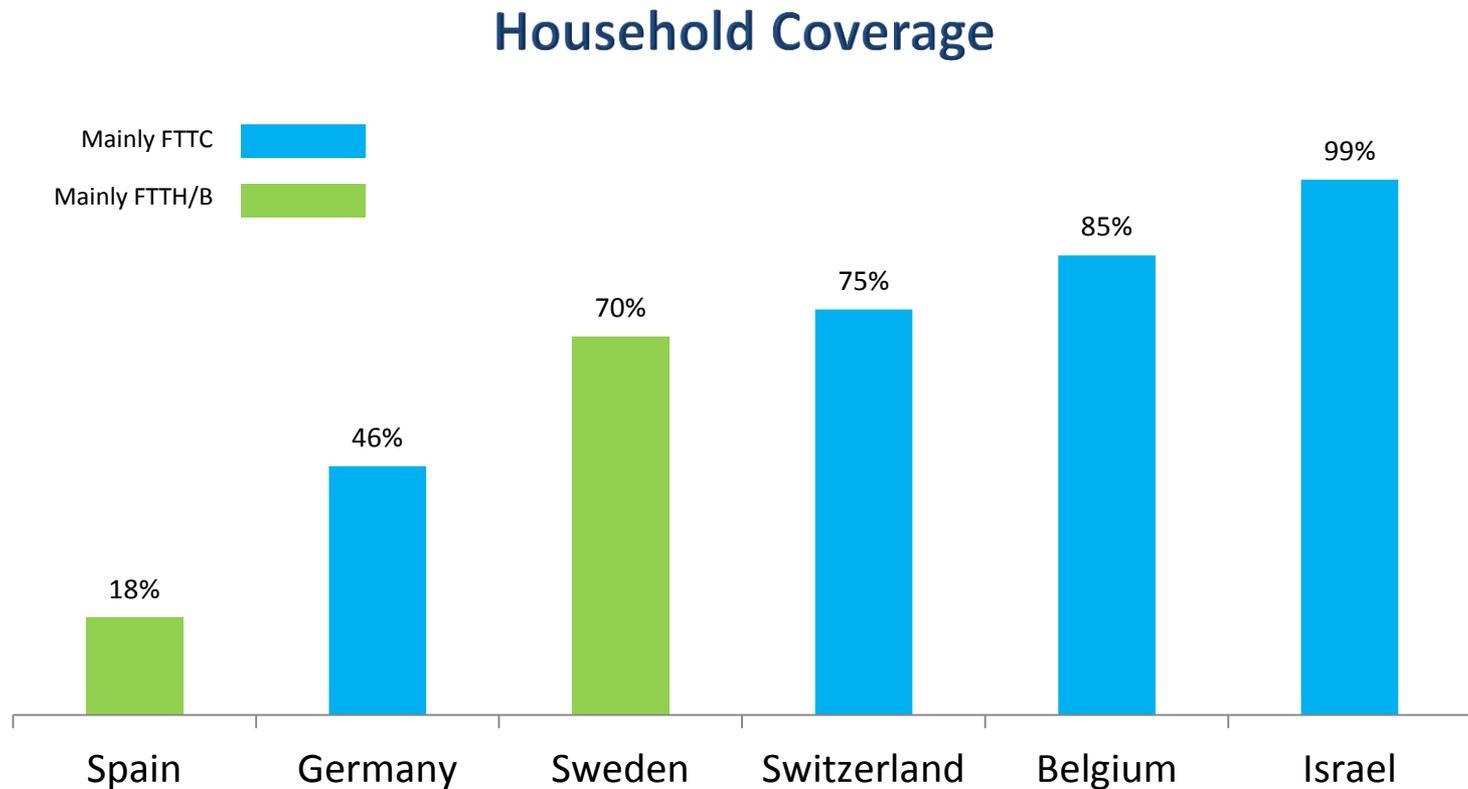
Fixed Line



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

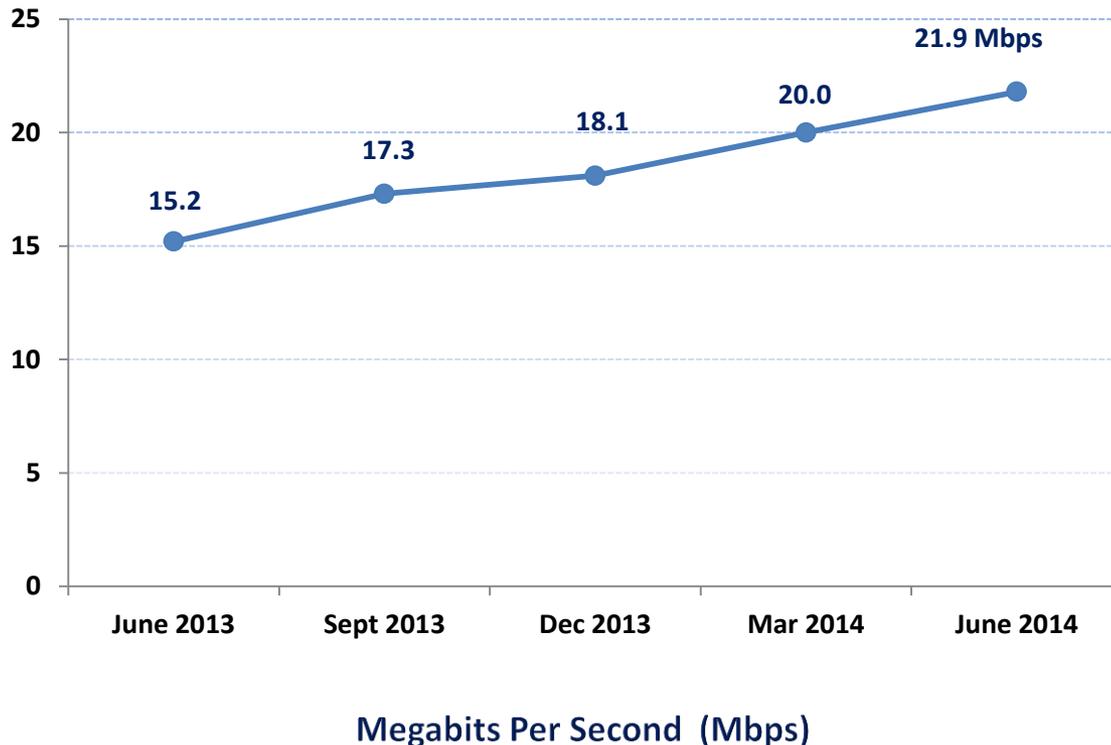
With the NGN, Israel is one of the leading countries in the world in terms of pace and scope of deployment



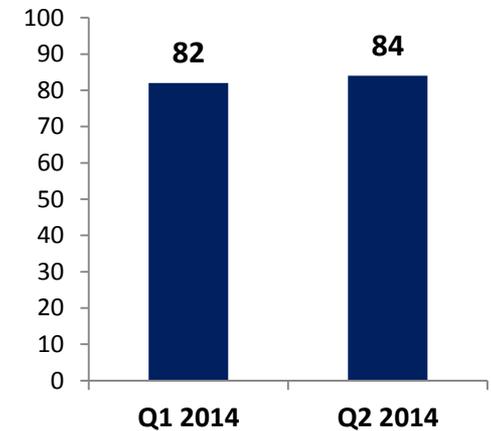
Note: 2013 Analysys Mason, Point Topic

NGN Increasing Average Broadband Speeds

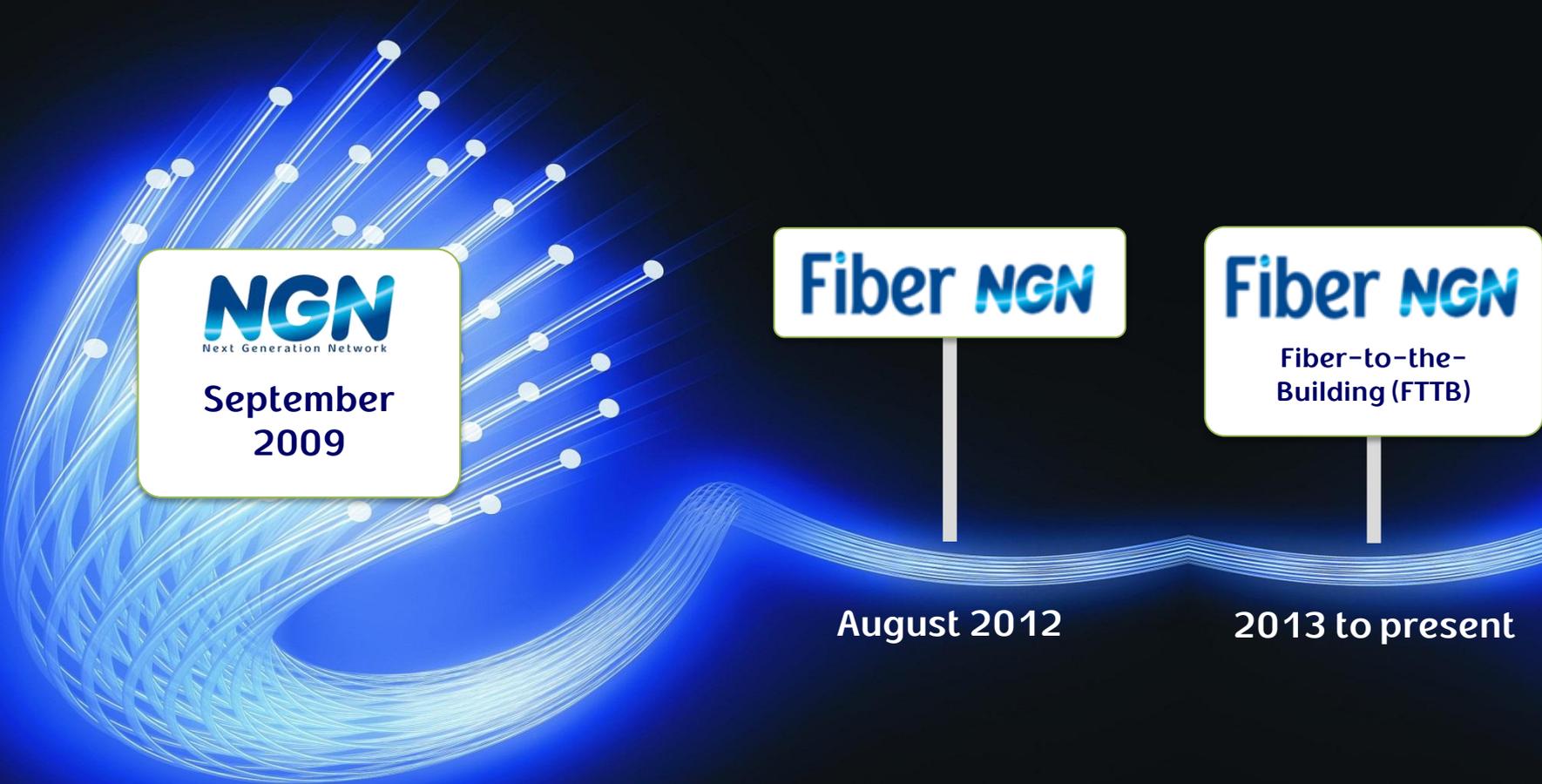
44% year-over-year increase in average broadband speed per subscriber



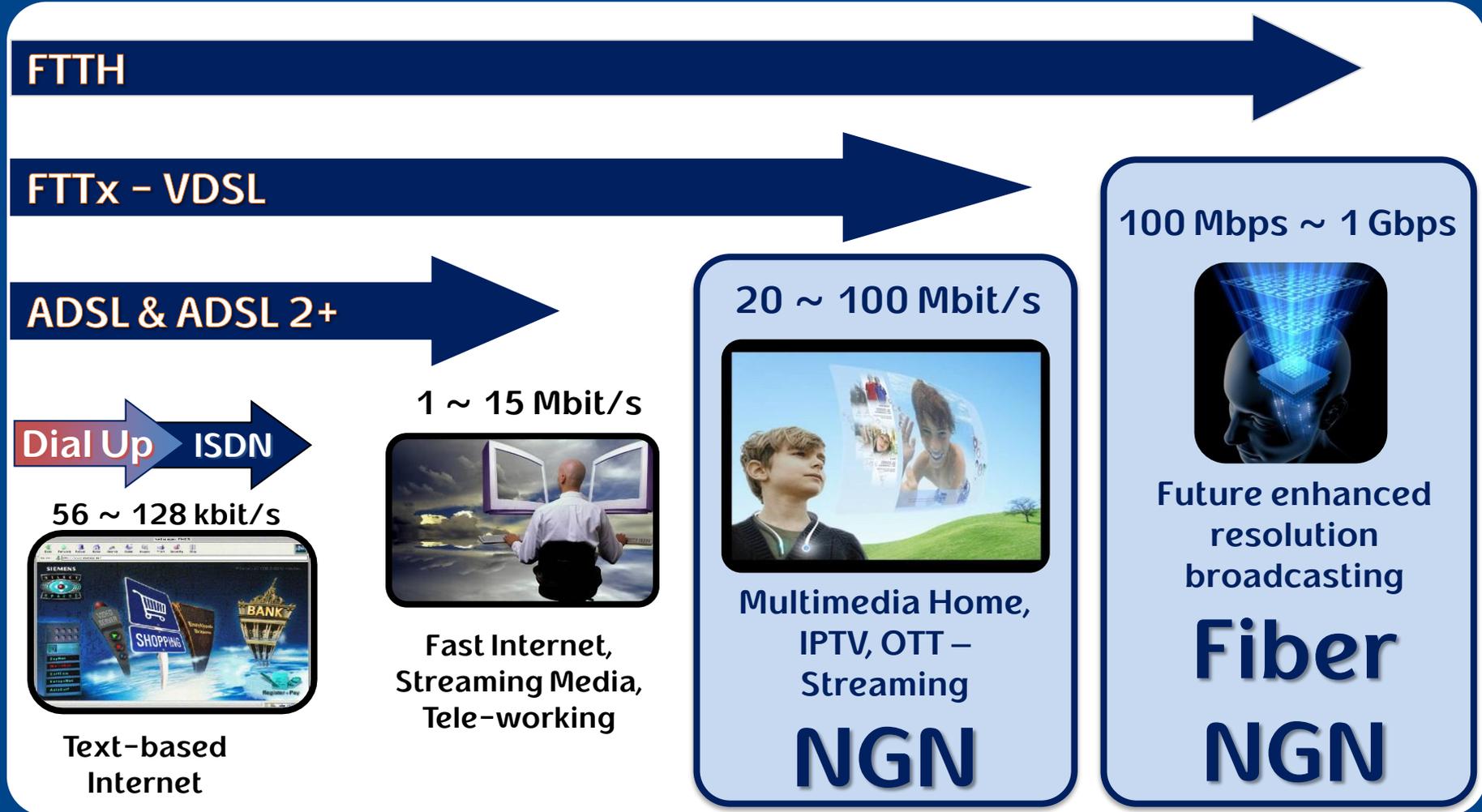
Broadband Internet ARPU (NIS)



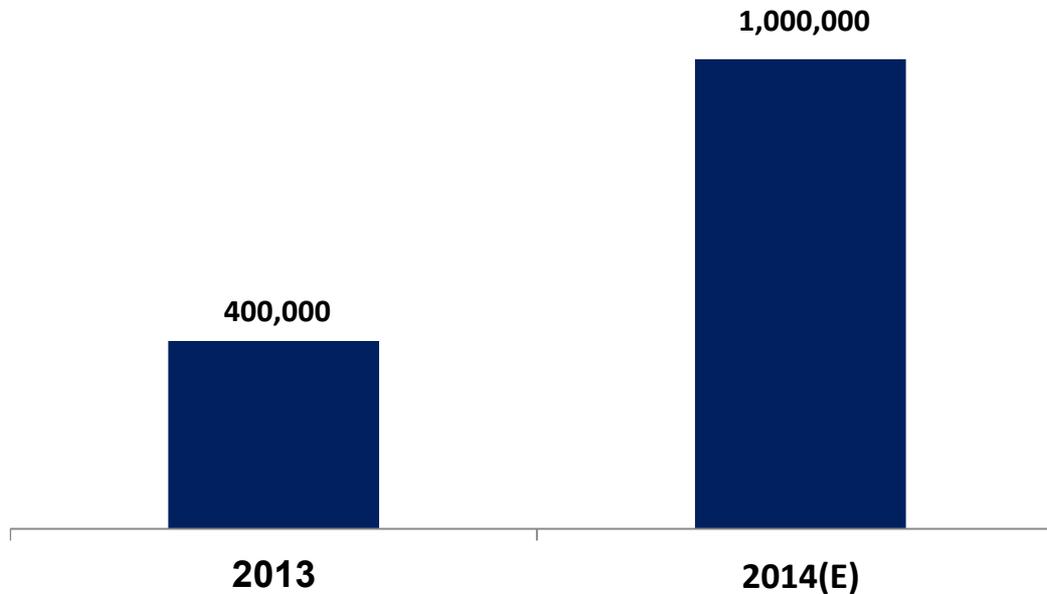
Continuing to the next stage and expanding fiber deployment



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



FTTB Homes Passed



Fiber NGN

Bezeq Fixed Line is on track to reach **1 million** homes in 2014 representing approximately **40%** of the **Israeli population**



Pelephone

Cellular



- 2.61 million cellular customers
- 3.75 G speed HSPA technology
- Preparations for new 4G (LTE) network underway
- Strong platform for advanced data services
- Highly competitive market



Pelephone is a winner in a challenging competitive environment



- 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 2012-2014 market pressure as the clear winner among incumbent operators
 - Lowest churn rate
 - Best financial profitability and ARPU

Network Speed Leadership



pelephone



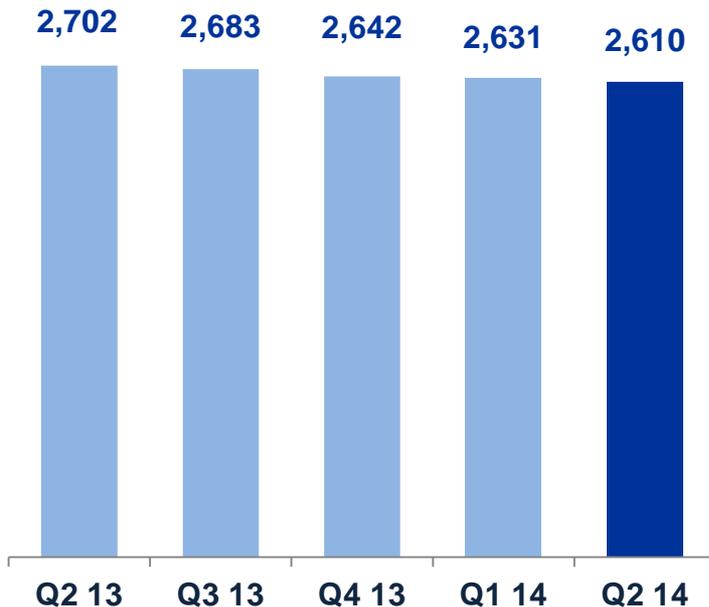
FASTEST iPHONE NETWORK WORLDWIDE

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

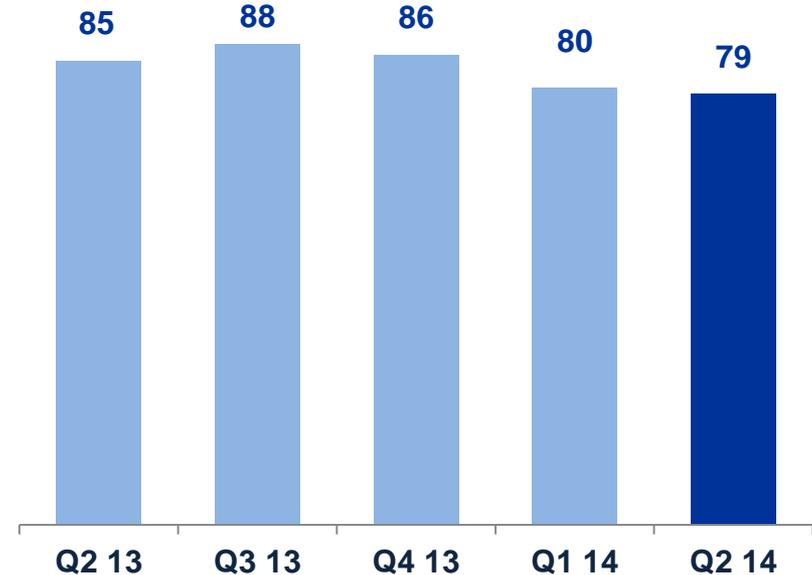
- Ookla Net Metrics

Telephone KPIs

Subscribers (in 000's)



ARPU (NIS)



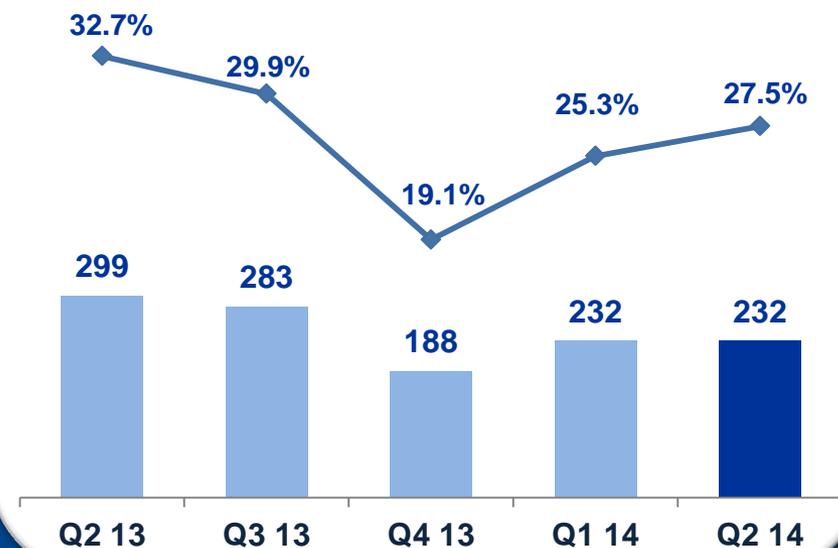
- Cellular subscribers as of June 30, 2014 totaled 2.61 million, down just 0.8% sequentially as the churn rate dropped to 6.5% in 2Q 2014.
- ARPU in 2Q 2014 decreased 1.3% sequentially due to a reduction in tariffs in the challenging competitive cellular environment.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- The y-o-y decline in 2Q 2014 revenue and EBITDA was driven by an increased competitive environment resulting in a reduction in tariffs and the transition of existing customers to lower priced plans.
- EBITDA margin in 2Q 2014 was 27.5% compared with 25.3% in 1Q 2014.



ISP / ILD / ICT

Bezeq International

Israel's Leading Internet & International Telecom Provider

ISP



- Leading broadband Internet service in Israel
- Over 40% 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

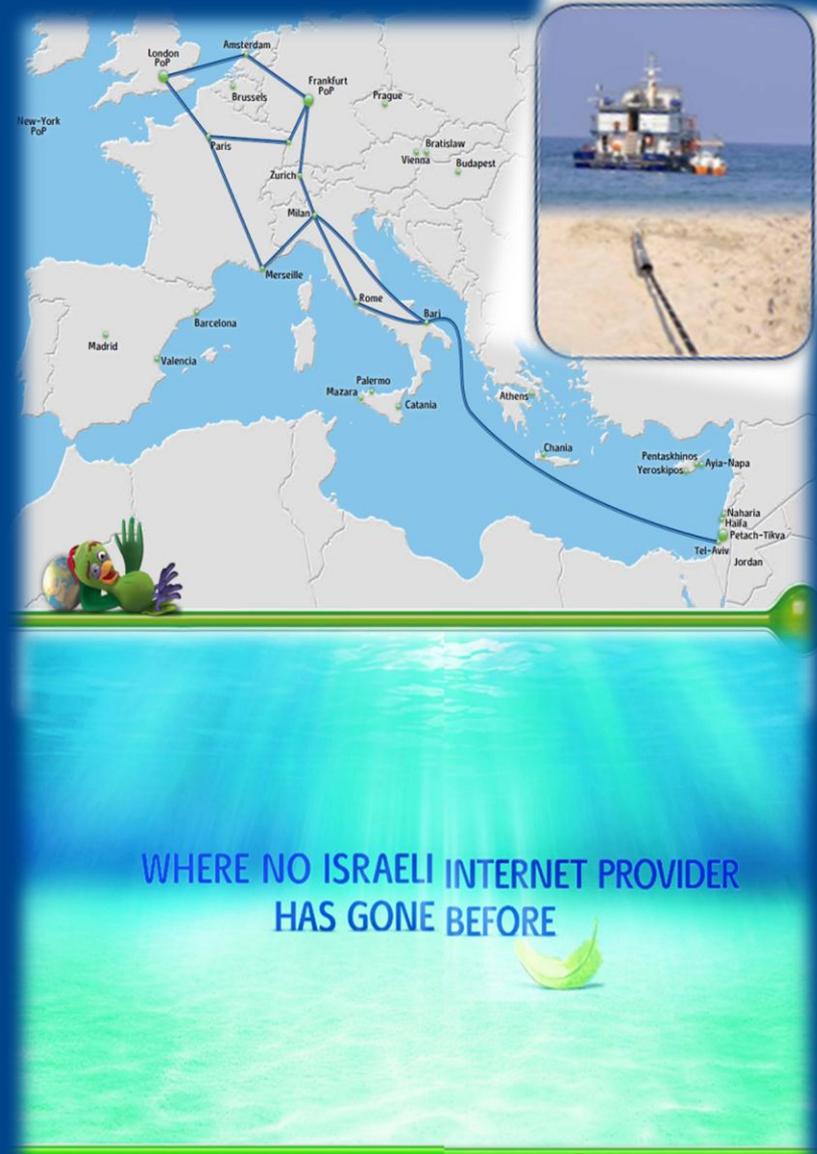


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

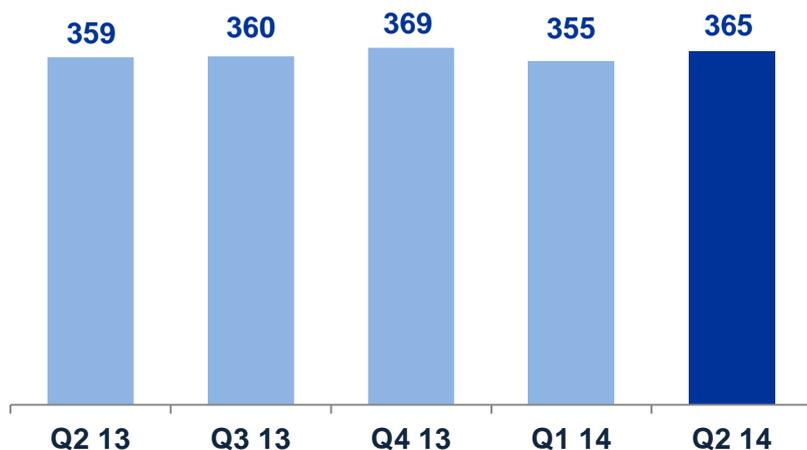
Bezeq International's submarine cable provides a platform to:

- 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

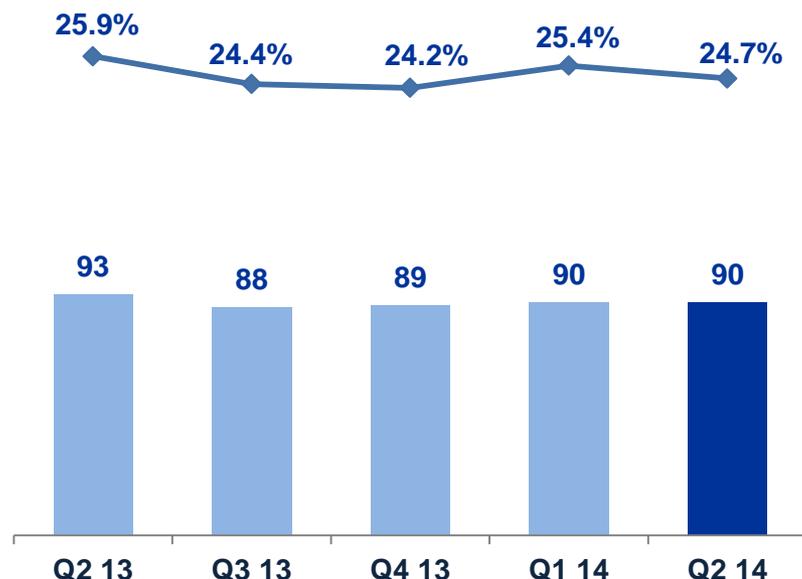


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in 2Q 2014 increased 1.8% y-o-y to NIS 365 million due to growth in Internet services delivered across the submarine cable infrastructure as well as in data communications and IT solutions (ICT).
- EBITDA in 2Q 2014 declined 2.8% y-o-y to NIS 90 million, for an EBITDA margin of 24.7%.



**Satellite
Television**



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

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

- *Nationwide satellite availability*
- *613,000 subscribers*
- *41% market share*
- *160 channels of content*
 - *Including 39 Yes branded channels*

yes.MultiRoom



- Enables access to recordings from another STB
- Given as free add-on to VOD subscribers
- Launched June 2013



- iOS & Android App, streams 50 channels and VOD on the go
- Given as free add-on to VOD subscribers
- Launched March 2014

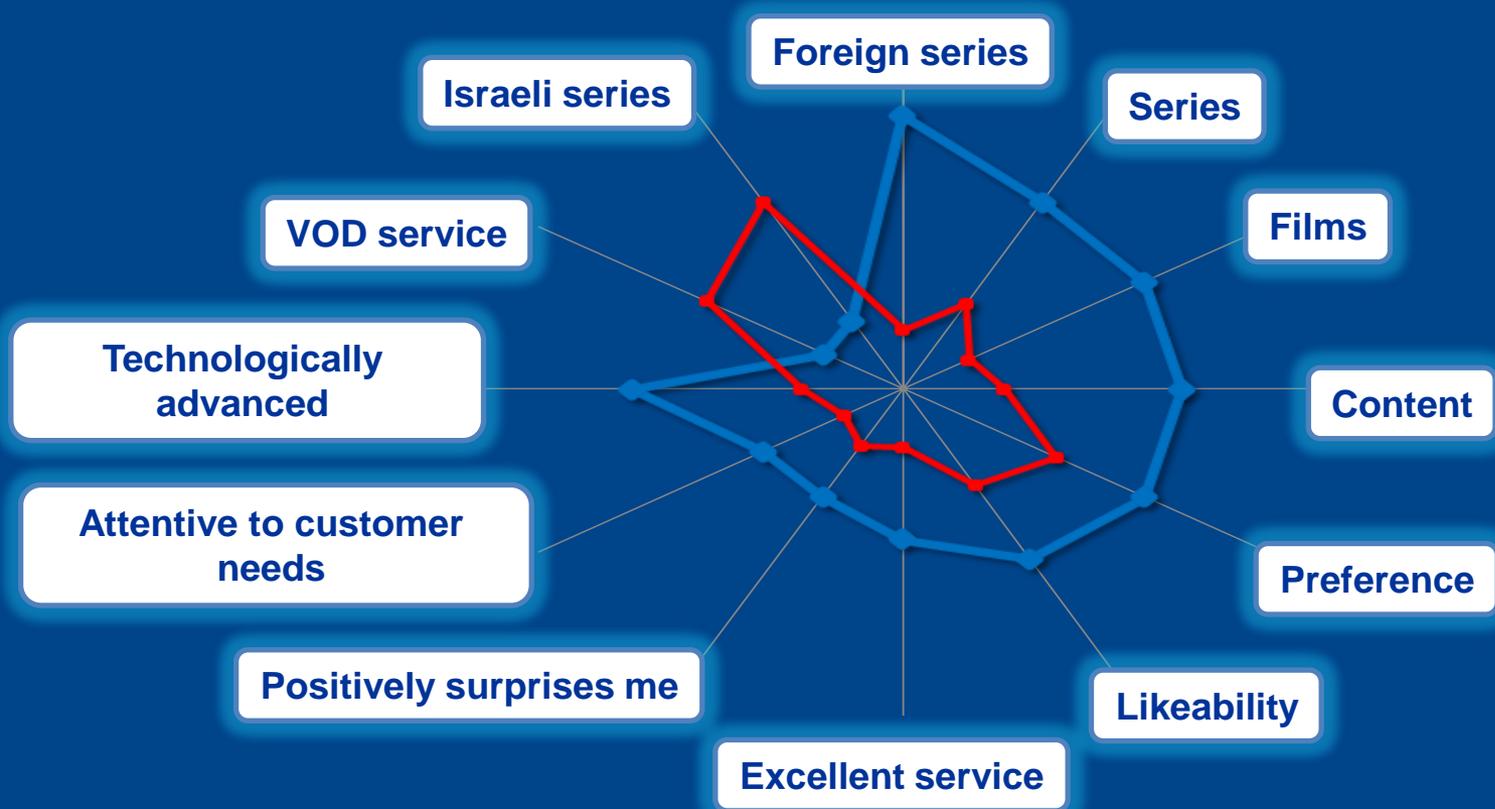
Yes – Advanced Services



Ultimate Viewing Experience

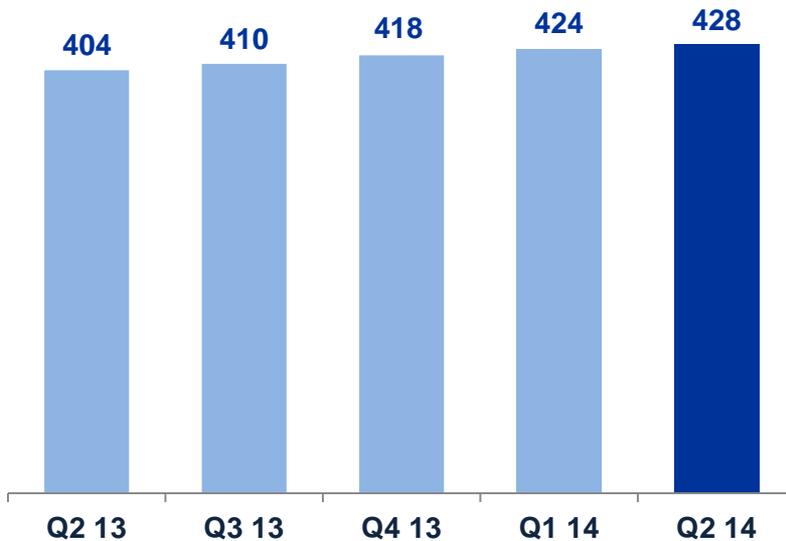
- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

Yes' Brand Image Significant Advantages

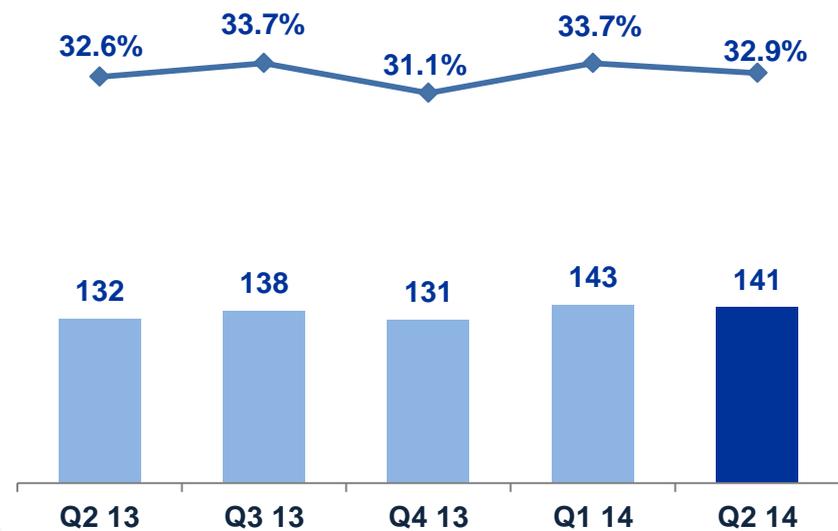


Yes – Revenue & EBITDA

Yes Revenue
NIS MM



Yes EBITDA
NIS MM



- Revenue in 2Q 2014 increased 5.9% y-o-y to NIS 428 million versus the year ago supported by a 5.1% increase in subscribers and 0.9% increase in ARPU.
- EBITDA in 2Q 2014 increased 6.8% y-o-y to NIS 141 million, primarily due to subscriber levels rising to a record 613,000 subscribers. EBITDA margin increased to 32.9%.

Market Changes Create New Opportunities for the Bezeq Group

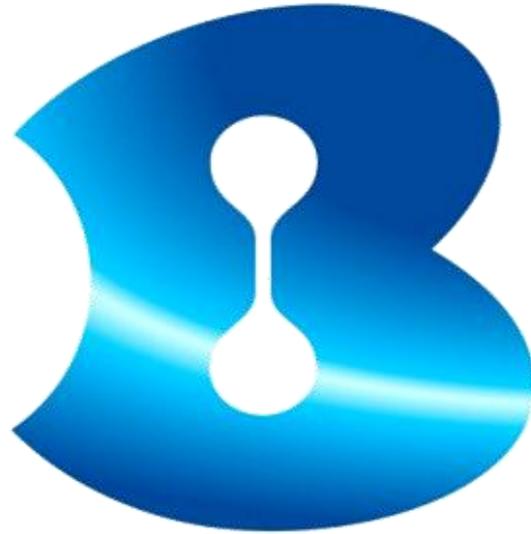


**Removal of
Structural Separation**

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

**Increased Demand
for High Speed
Internet**

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



Thank You

For more information please visit
www.bezeq.co.il