



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

**Investor Presentation**  
**Q1 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

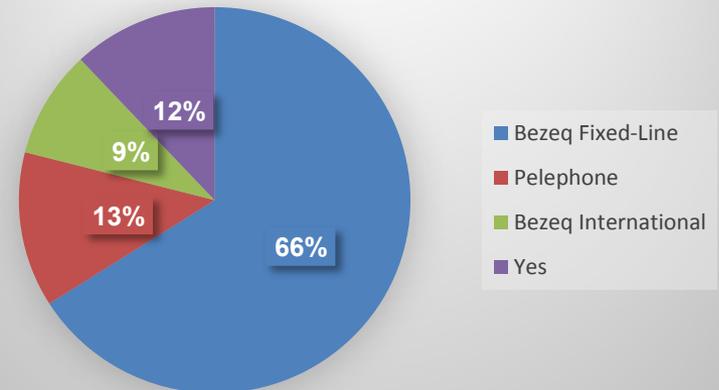
## The largest provider of telecommunications services in Israel

- LTM Revenue: NIS 8.92 billion
- Diversified portfolio in all TMT sub-markets
  - 2.21 million fixed customer lines
  - 2.56 million cellular customer lines
  - 1.39 million broadband lines
  - 634,000 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
- 2014 dividends paid to shareholders totaling NIS 2.07 billion. 1H 2015 cash dividend of NIS 844 million paid in May 2015

Pro-Forma Group Revenues - Q1 2015  
(Total Pro-Forma Revenues of NIS 2,608M)



Contribution to Pro-Forma Group  
EBITDA - Q1 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, expected 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

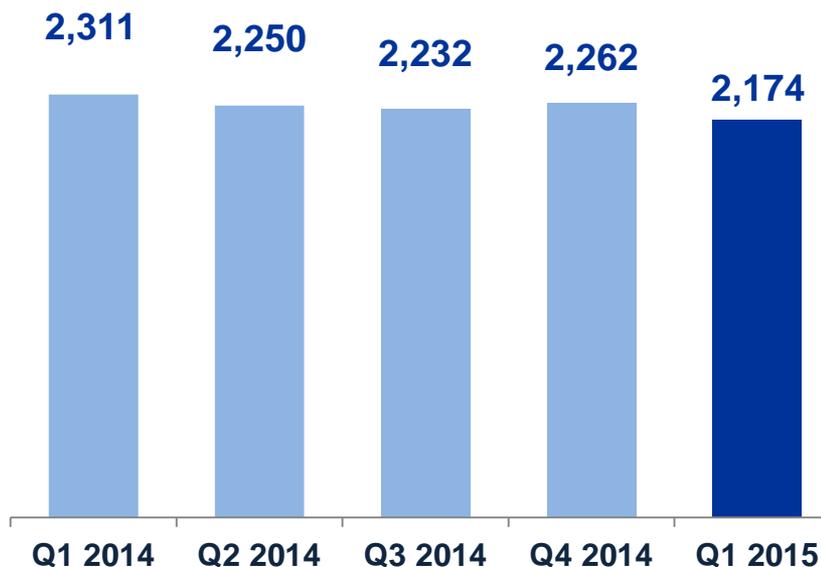
- **Removal of structural separation**
- **Acquisition of yes**
- **Introduction of wholesale market**
- **Increased flexibility in retail operations**



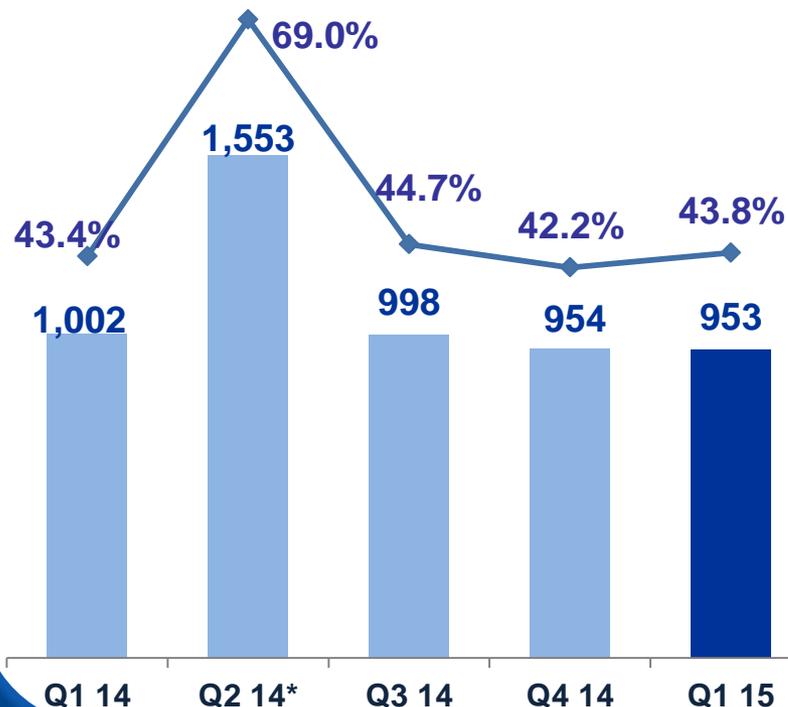
# Bezeq Group Financial Overview

# Bezeq Group – Revenue & EBITDA

Consolidated Revenue  
NIS MM



Consolidated EBITDA  
NIS MM



- Consolidated 1Q 2015 revenue decreased 5.9% yoy primarily due to lower revenues at Telephone, partially offset by increased revenues of Bezeq Fixed-Line and Bezeq International.
- 1Q EBITDA decreased 4.9% yoy, due to decreased revenues partly offset by lower expenses for Telephone and Bezeq Fixed-Line.

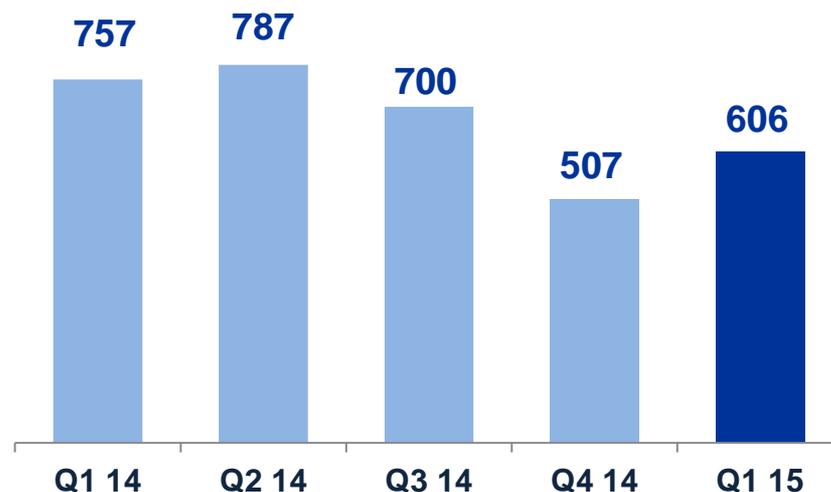
\*Includes gain from the sale of Yad 2

# 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 high level of investments is due to the continued nationwide rollout of Bezeq Fixed Line's fiber optic network, together with investments in advanced technologies.
- Free cash flow in 1Q 15 decreased 19.9% yoy due to changes in working capital and an 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>

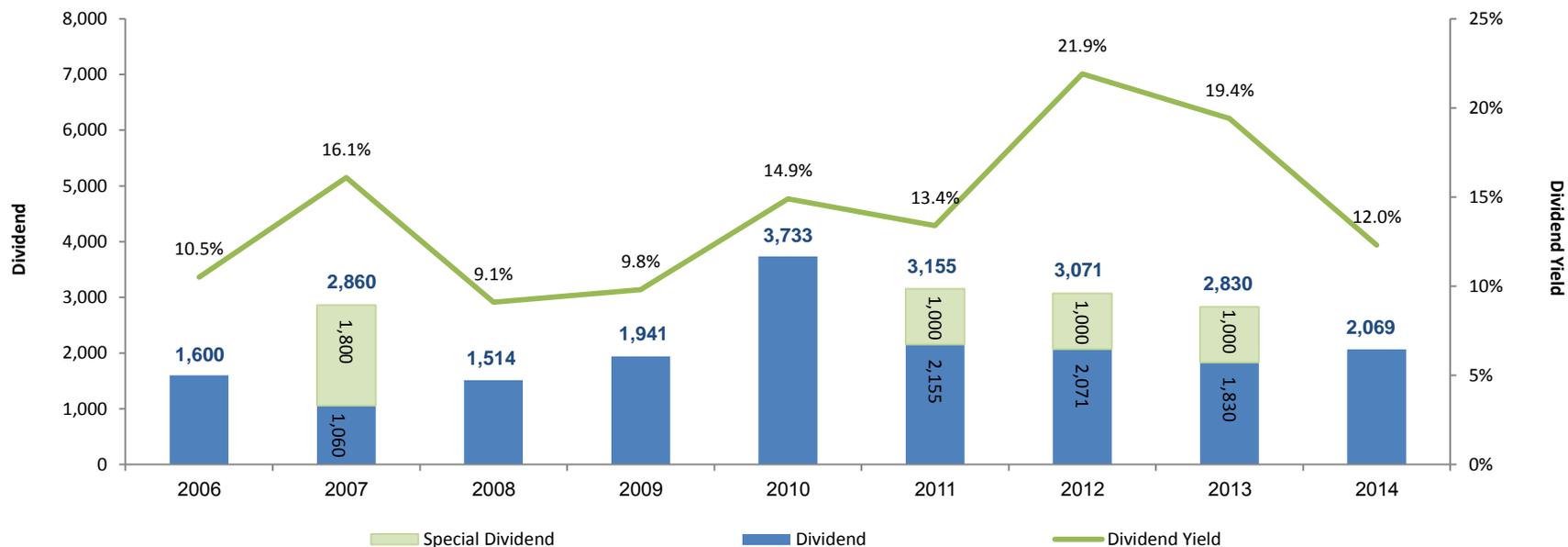
The Company's forecasts detailed above are forward looking information, as defined in the Securities Law, and are based on assessments, assumptions and expectations of the Company, including the following:

- a. The forecasts do not include the effects of a provision for the early retirement of employees and/or the signing of a collective labor agreement, as may occur, nor the execution of a transaction for the acquisition of all of the holdings of Eurocom DBS in yes. However, the forecasts do include the effects of the Company's increase in its shareholding in yes to approximately 58.4% after the exercise of its option of 8.6% in yes shares as of the date of increase in share ownership (approximately 9 months).
- 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 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.
- NIS 844 million cash dividend for first half 2015 with 4.7% dividend yield for the half year.

# 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**

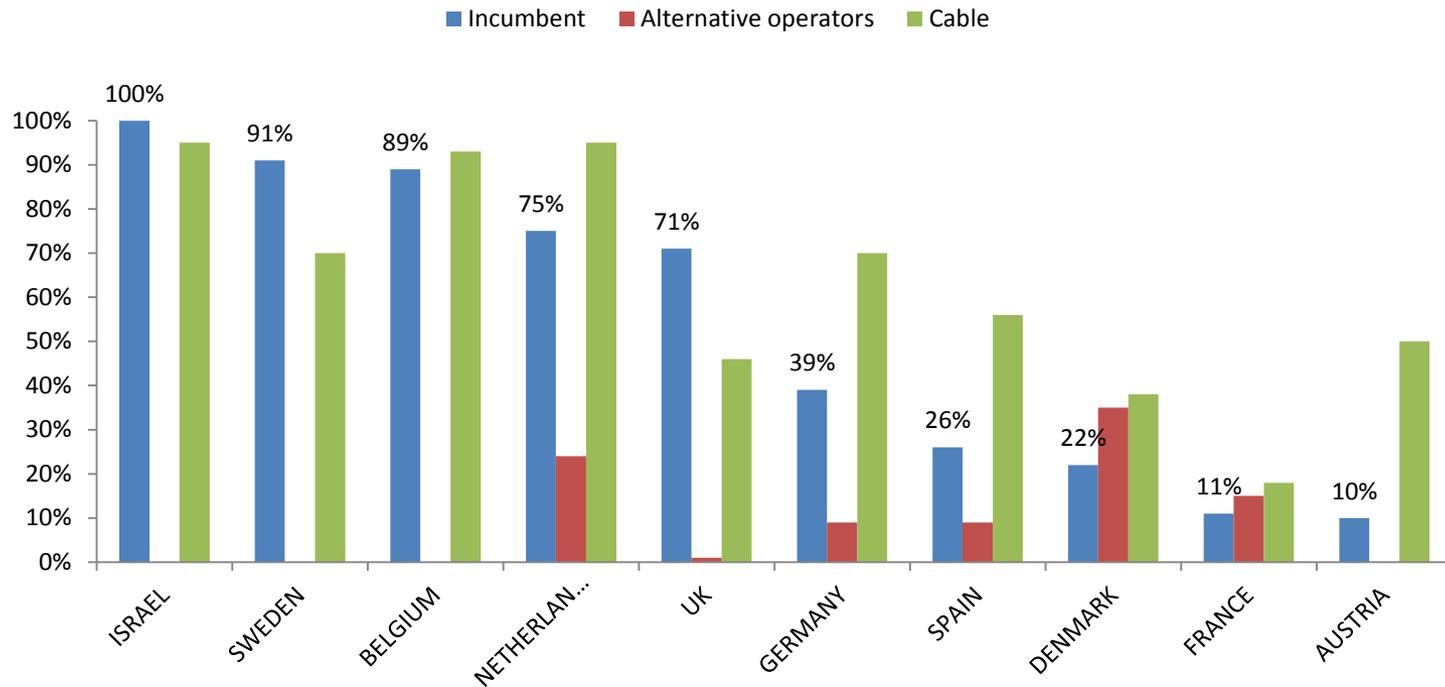
# Bezeq Fixed-Line

**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

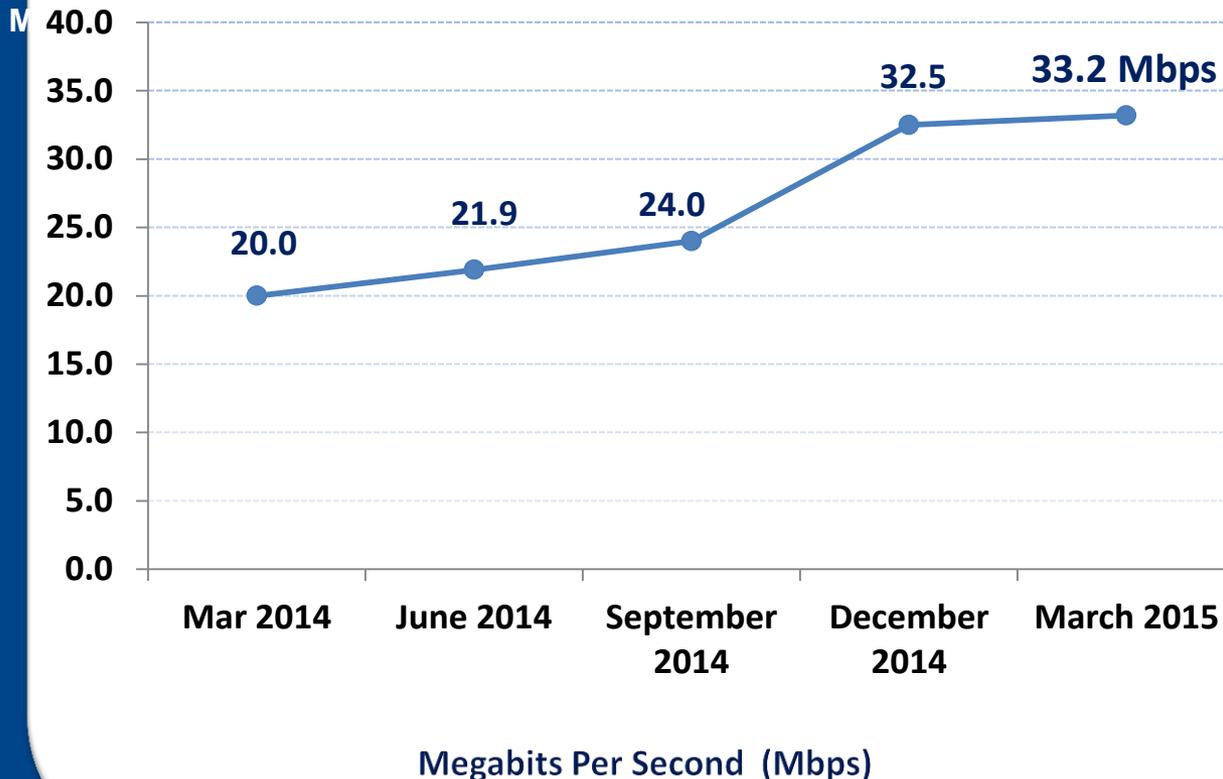
## Household Coverage



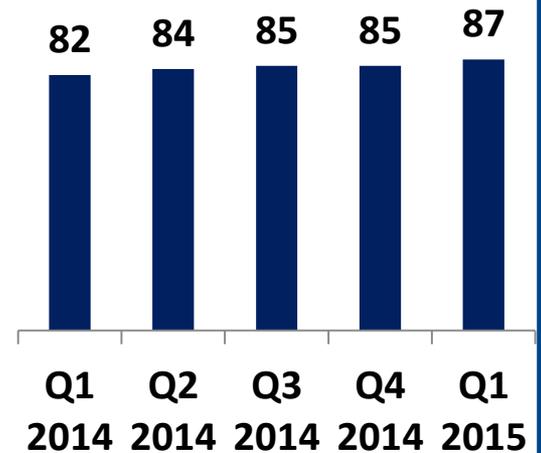
Source: Cullen Research, November 2014

# NGN enables ongoing increases in bandwidth and ARPU growth

66% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)

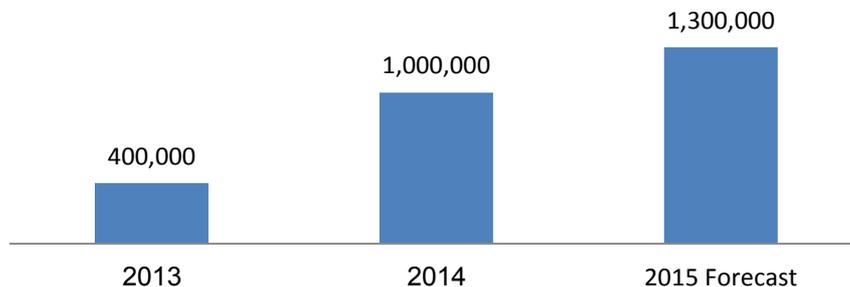


# Fiber-to-the-Building Rollout



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

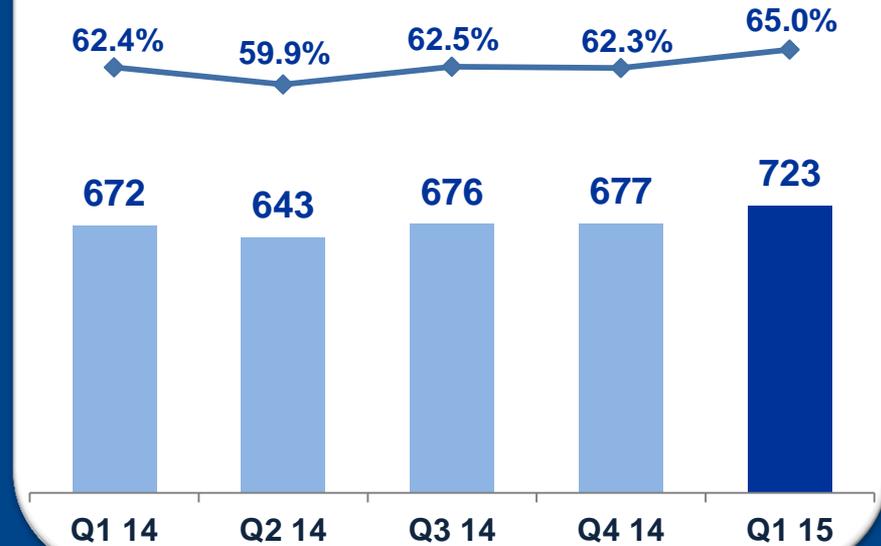


# Bezeq Fixed-Line – Revenue & EBITDA

Bezeq Fixed-Line Revenue  
NIS MM



Bezeq Fixed-Line EBITDA  
NIS MM



- Revenues increased 3.3% for 1Q 15 compared to the year ago quarter primarily driven by growth in revenues from broadband Internet services.
- EBITDA increased 7.6% in the first quarter versus 1Q 14, aided by the increase in revenues.



**Pelephone**

**Cellular**

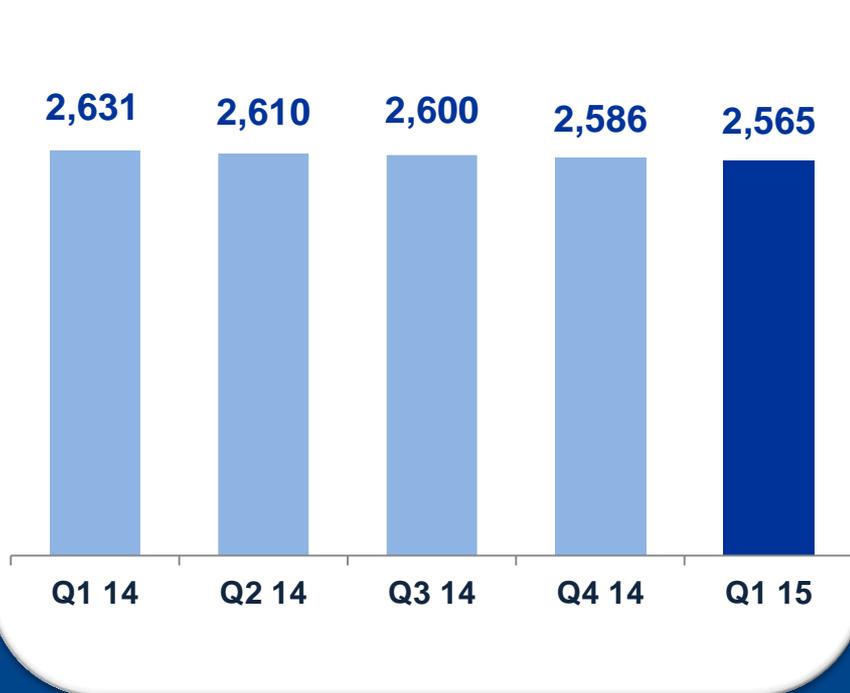


- 2.56 million cellular customers
- Nationwide HSPA network
- 4G (LTE) network in early launch stage with wide deployment in 2015
- Strong platform for advanced data services
- Highly competitive market

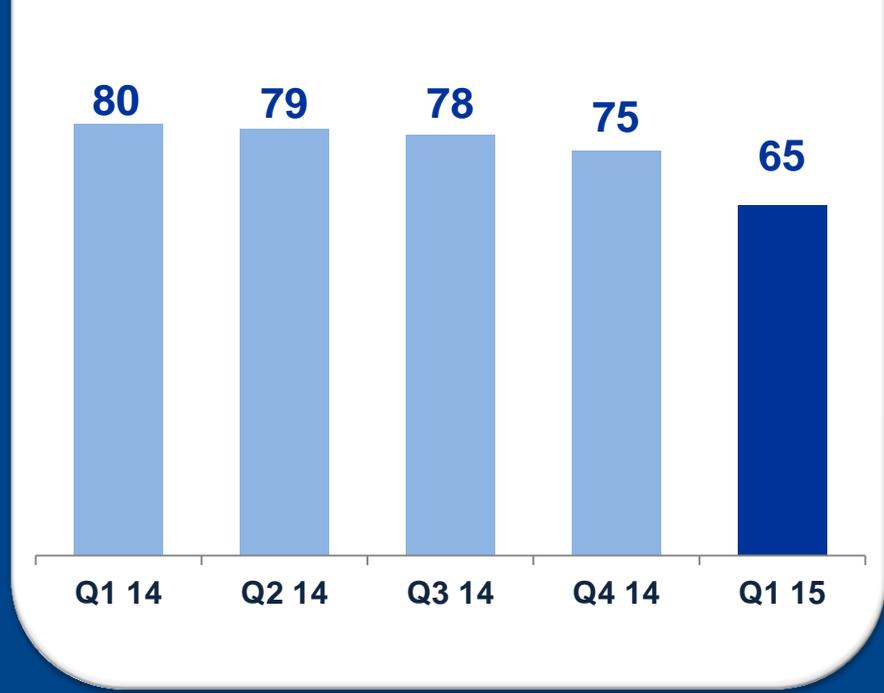


# Telephone KPIs

Subscribers (in 000's)



ARPU (NIS)



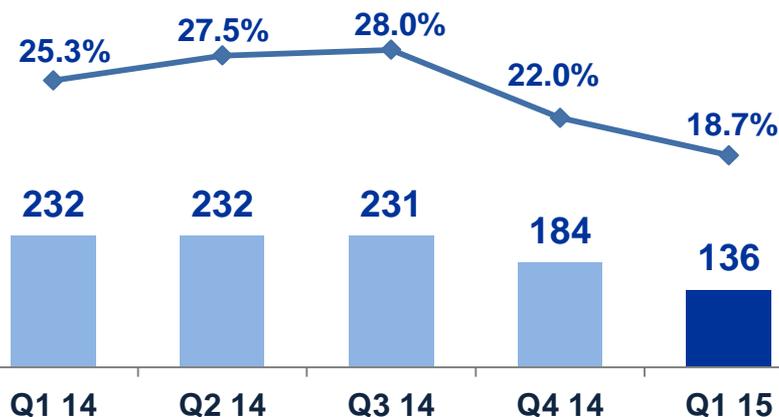
- Cellular subscribers as of March 31, 2015 were stable sequentially.
- ARPU in 1Q 15 decreased 13.3% sequentially due to the termination of the hosting agreement with Hot Mobile as well as increased competition in the market.

# Pelephone – Revenue & EBITDA

Pelephone Revenue  
NIS MM



Pelephone EBITDA  
NIS MM



- Revenue and EBITDA declined 20.7% and 41.4% respectively y-o-y driven by lower revenues from cellular services.
- After adjusting for the revenues from the hosting agreement with Hot Mobile, EBITDA increased by NIS 4 million sequentially.



**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 40% Internet market share
- Cutting-edge infrastructure
- Customized service plans
- Advanced IP services

## ILD



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

## ICT



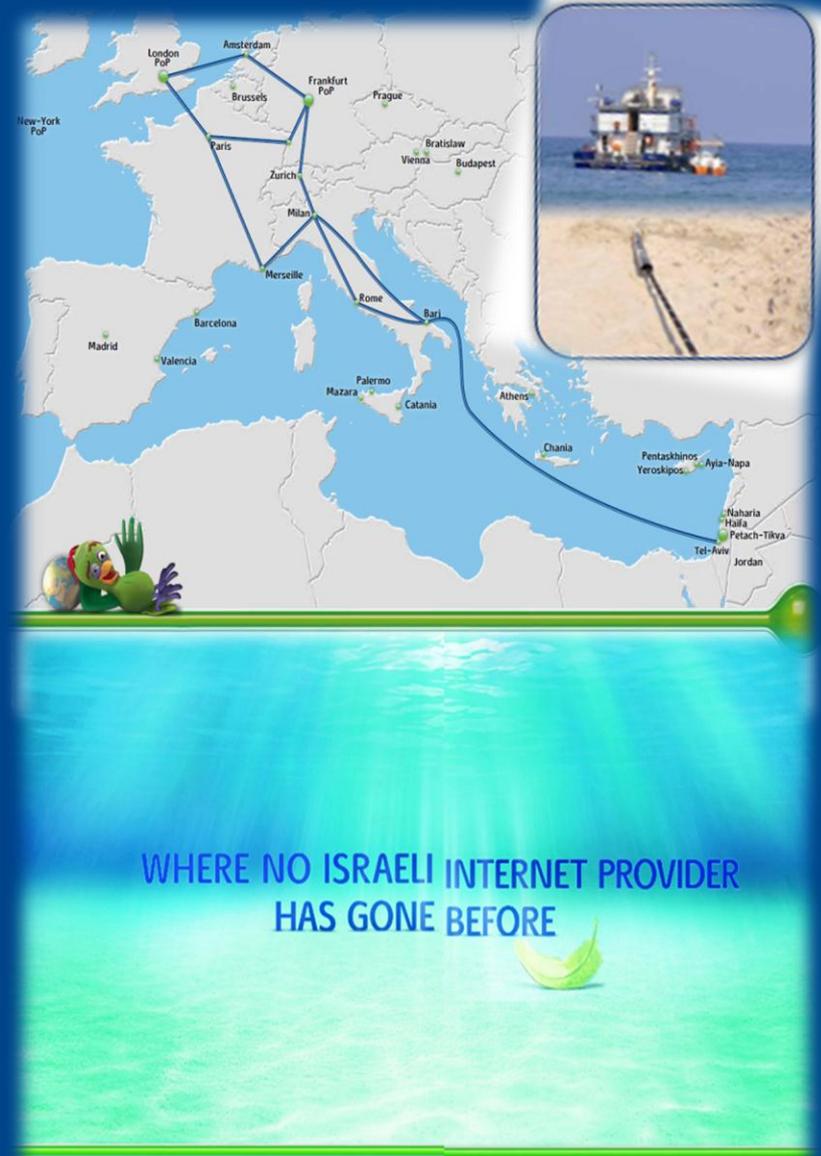
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

# 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

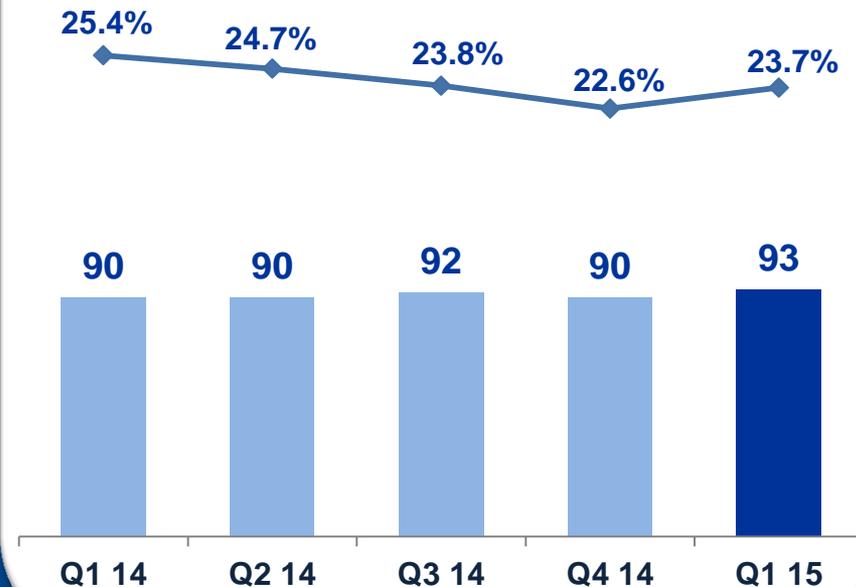


# Bezeq International – Revenue & EBITDA

Bezeq International Revenue  
NIS MM



Bezeq International EBITDA  
NIS MM



- Revenue in 1Q 15 increased 10.6% y-o-y to 393 million due to increased revenues from business communications and cloud services as well as successful leveraging of the submarine cable infrastructure.
- EBITDA in 1Q 15 rose 3.2% y-o-y to NIS 93 million, for an EBITDA margin of 23.7%.



**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

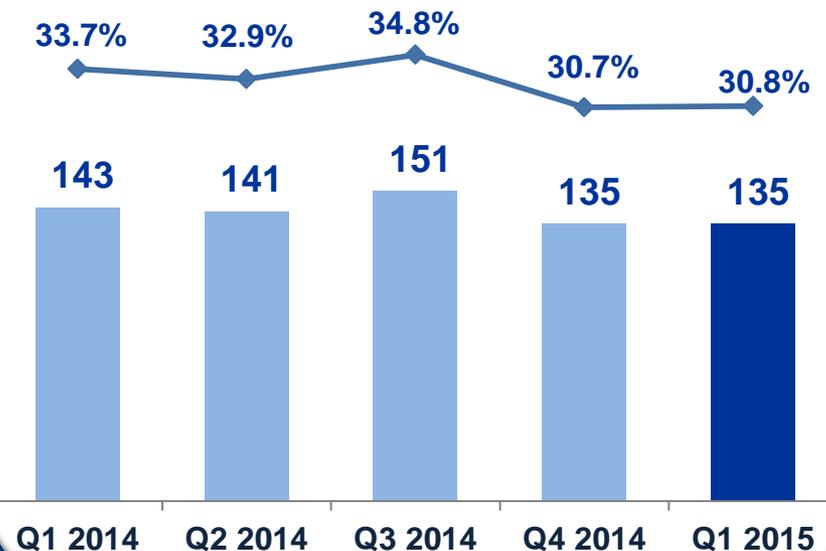
- ✓ Innovative applications based on state-of-the-art technology
- ✓ Average of three set-top boxes per household with significant proportion of HD

# Yes – Revenue & EBITDA

Yes Revenue  
NIS MM



Yes EBITDA  
NIS MM



- Revenues in 1Q 15 increased 3.9% y-o-y to NIS 440 million, supported by the addition of 2,000 subscribers.
- EBITDA in 1Q 15 decreased 5.0% to NIS 135 million. EBITDA margin was 30.8% for the first 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)