



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

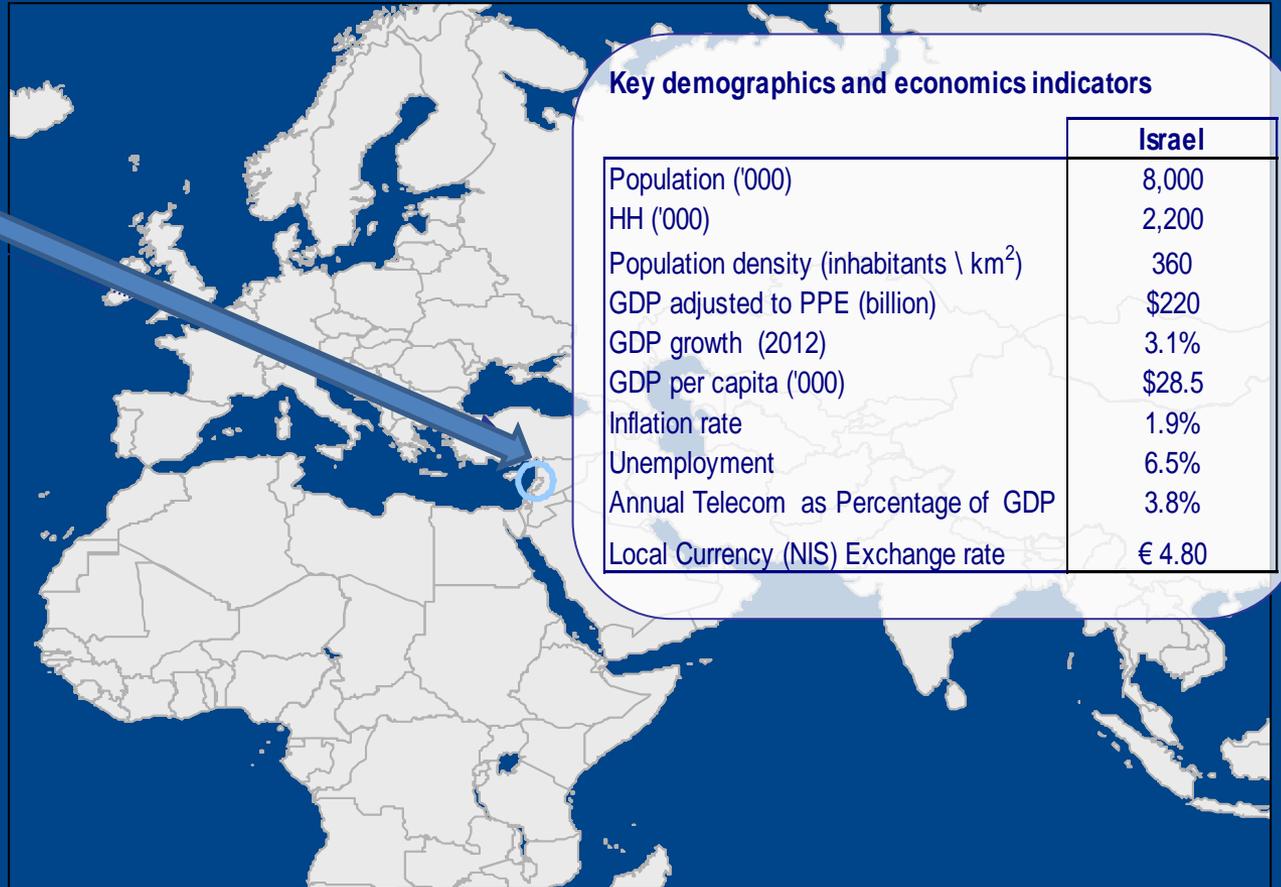
**Investor Presentation**  
**Full Year 2013 Results**

# 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

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- LTM Revenue: NIS 9.56 billion
- Most comprehensive range of offerings
  - 2.22 million fixed customer lines
  - 2.64 million cellular customer lines
  - 1.26 million broadband lines
  - 601,000 Pay-TV customers
- Highly dynamic market with one of the highest household broadband and mobile penetration rates
- LTM Dividends paid to shareholders totaling NIS 2.83 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

  
bezeq **Fixed  
Line**

  
telephone **Cellular**

  
Bezeq  
International  
**ISP, ILD, ICT**

  
**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
- 99% 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



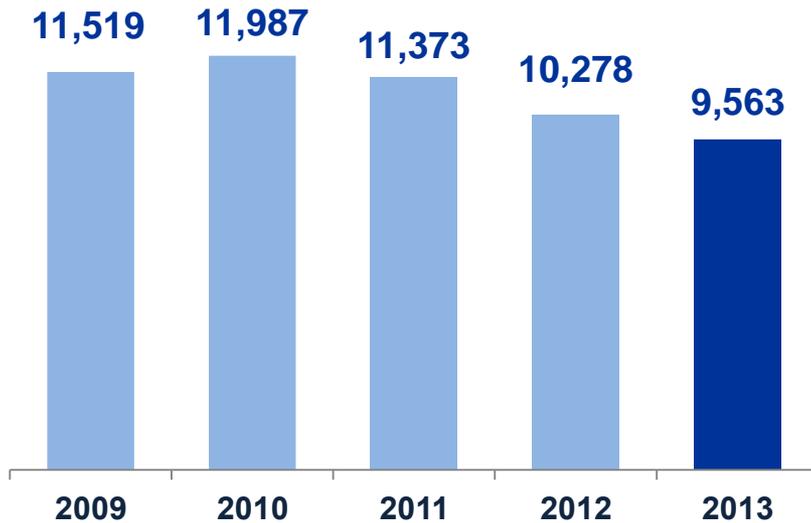
- High-speed submarine cable system deployed between Israel and Europe
- Increasing bandwidth at affordable rates



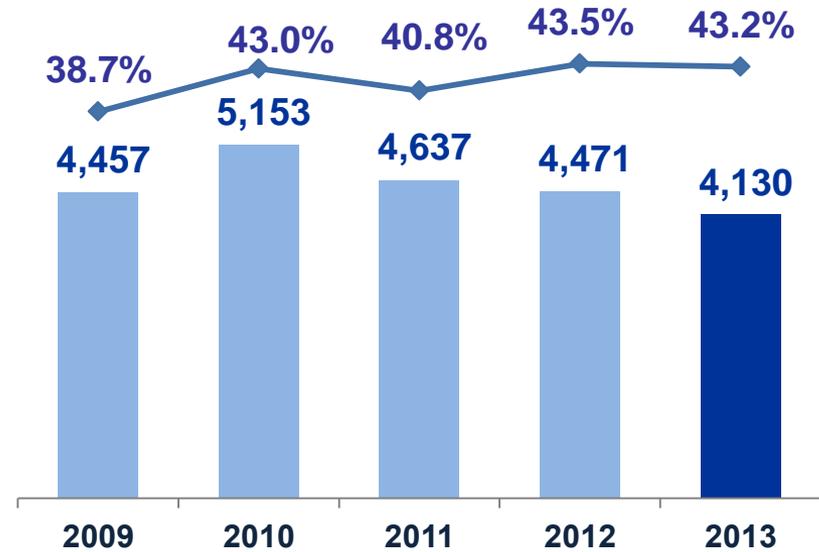
# Bezeq Group Financial Overview

# Bezeq Group – Revenue & EBITDA

Consolidated Revenue  
NIS MM



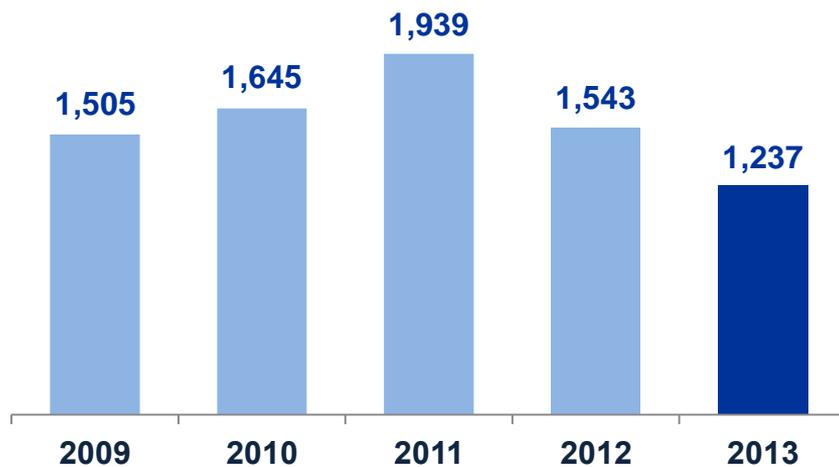
Consolidated EBITDA  
NIS MM



- Consolidated revenue 2013 decreased 7.0% year-over-year primarily due to a reduction in Telephone revenues from cellular services and equipment.
- EBITDA declined 7.8% Y-o-Y in 2013 primarily due to lower profitability at Telephone related to an increasingly competitive environment, while EBITDA margin held relatively steady at just over 43%.

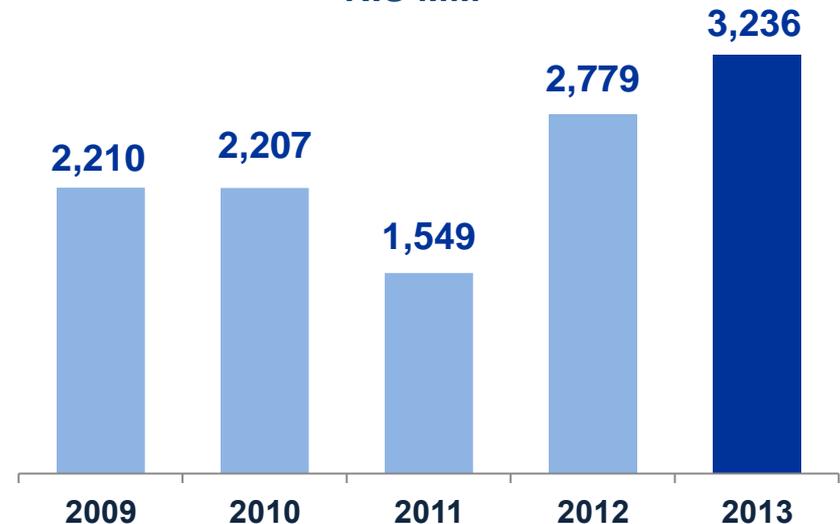
# Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx  
NIS MM



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

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

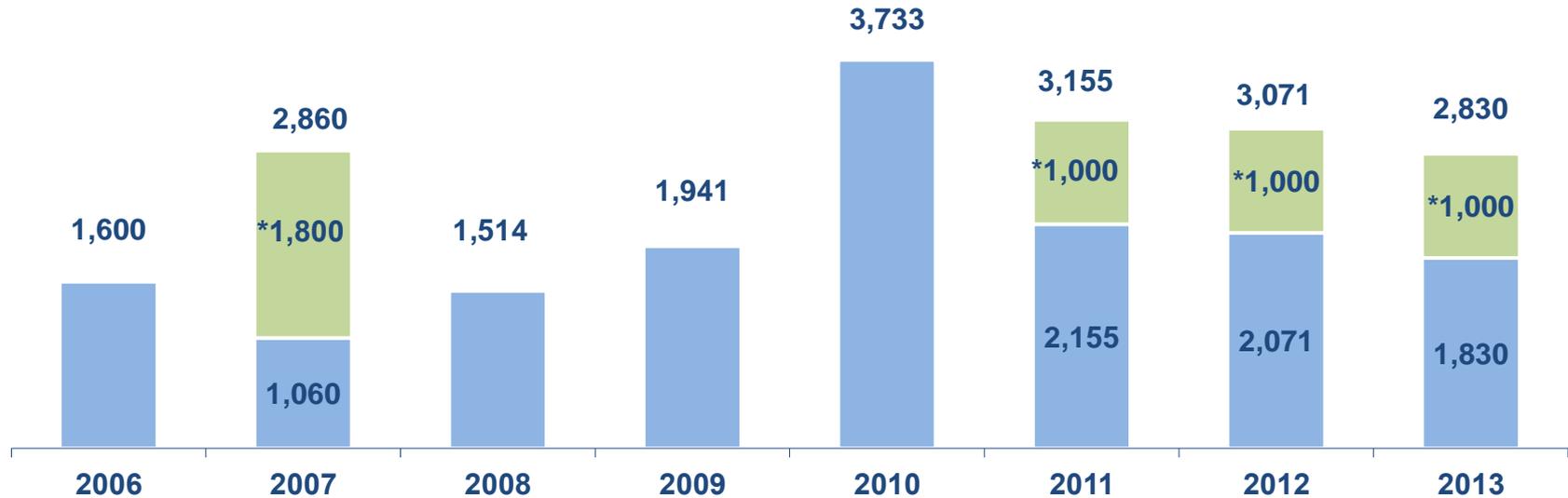


1. Free cash flow defined as Cash Flow from Operations– Net Capex  
2. Excluding yes

- Capex in 2013 was positively influenced Y-o-Y by the completion of the NGN project and of Bezeq International's submarine cable deployment.
- Free cash flow in 2013 increased 16.4% Y-o-Y due to the record cash flow from operating activities of NIS 4.15 billion.

# Sector Leading Dividend Policy

## Bezeq Group Dividends by Year (NIS MM)

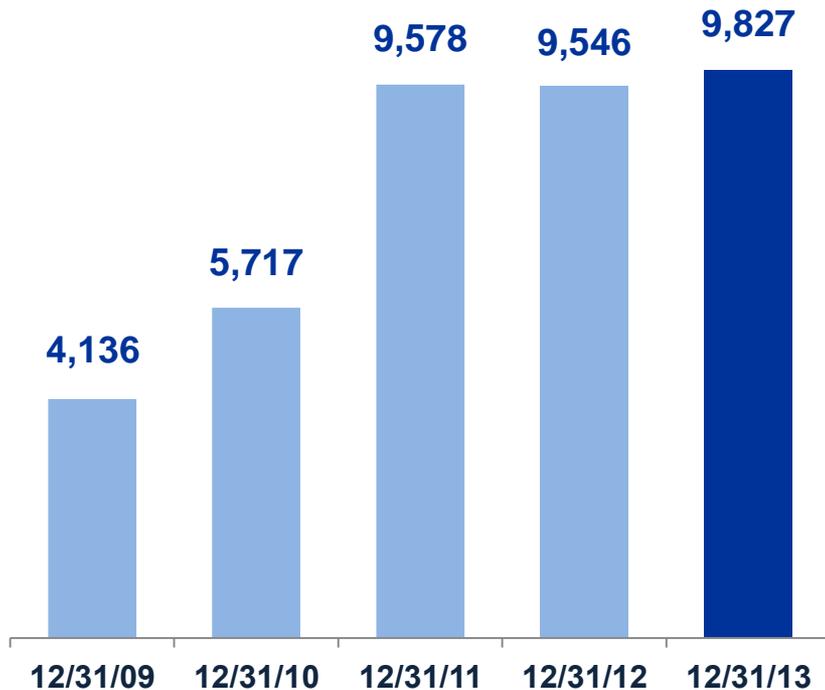


\* Special dividend

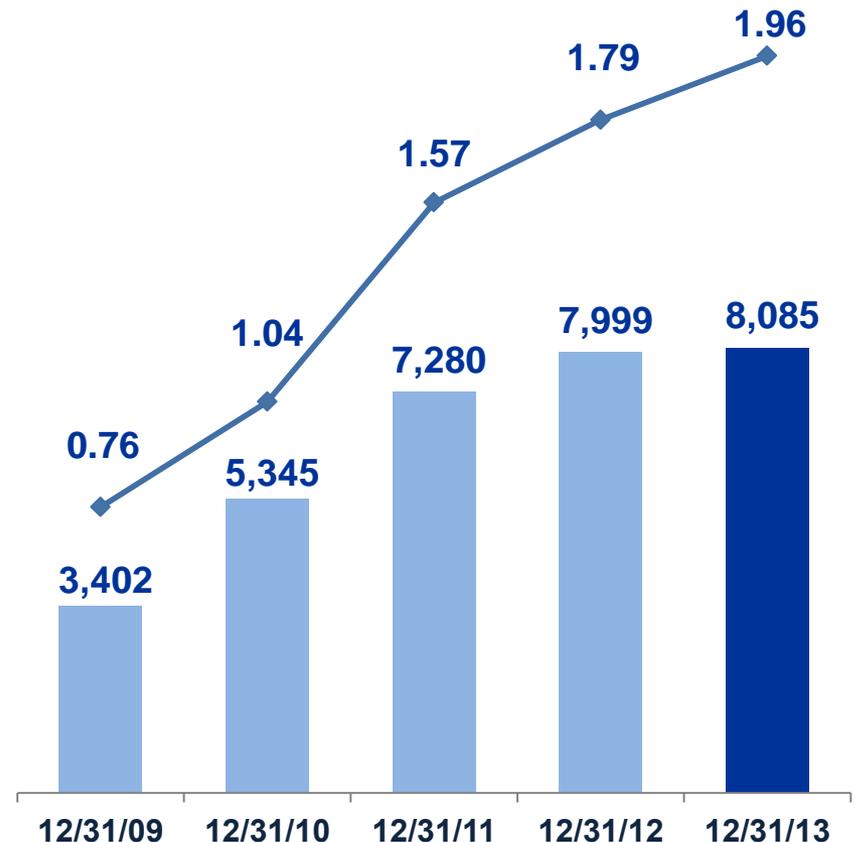
- **Regular Dividends:** 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis.
- **Special Dividends:** Six semi-annual NIS 500 million payments running from 2011 to 2013, as part of the Company's capital reduction plan. The sixth and final payment was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

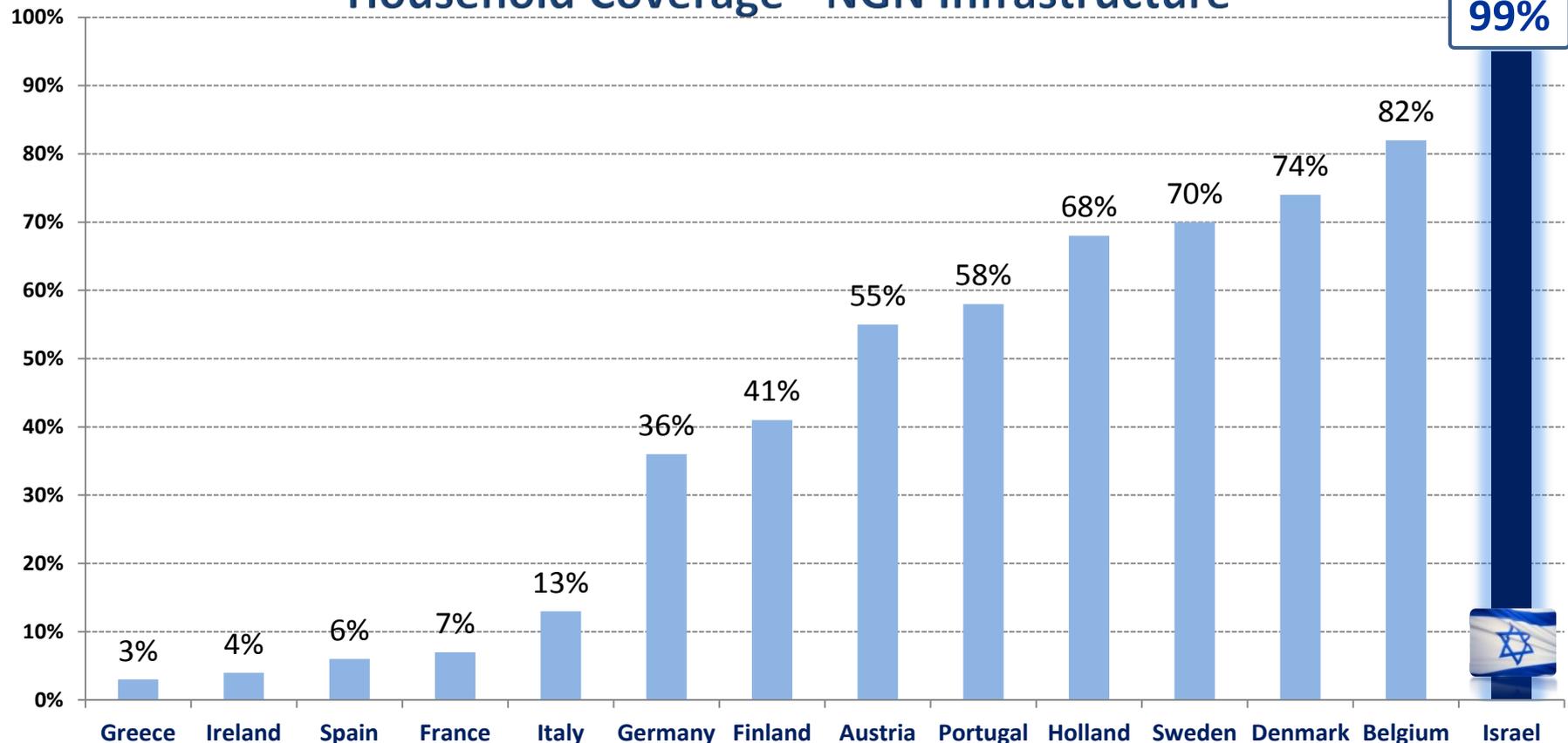


**Bezeq is uniquely positioned as the dominant provider of the full range of telecom products and services in Israel**

# 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

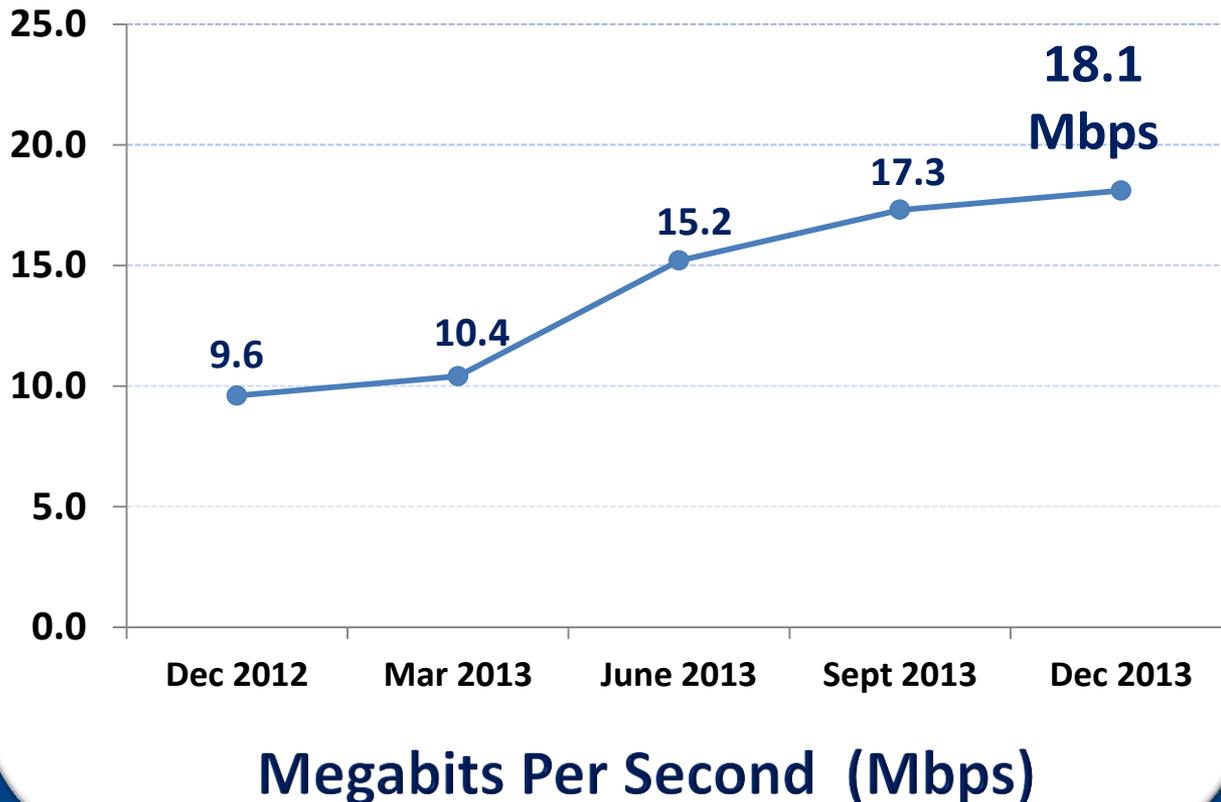
## Household Coverage - NGN Infrastructure



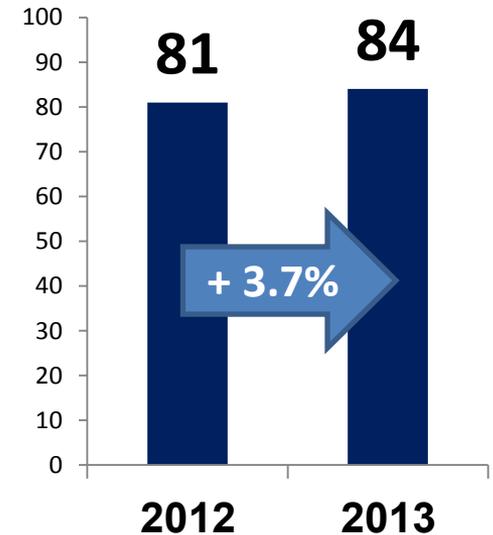
Note: Analysis as of December 2011. Bezeq data as of Dec 2012

# NGN Increasing Average Broadband Speeds

89% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)



**NGN**  
Next Generation Network

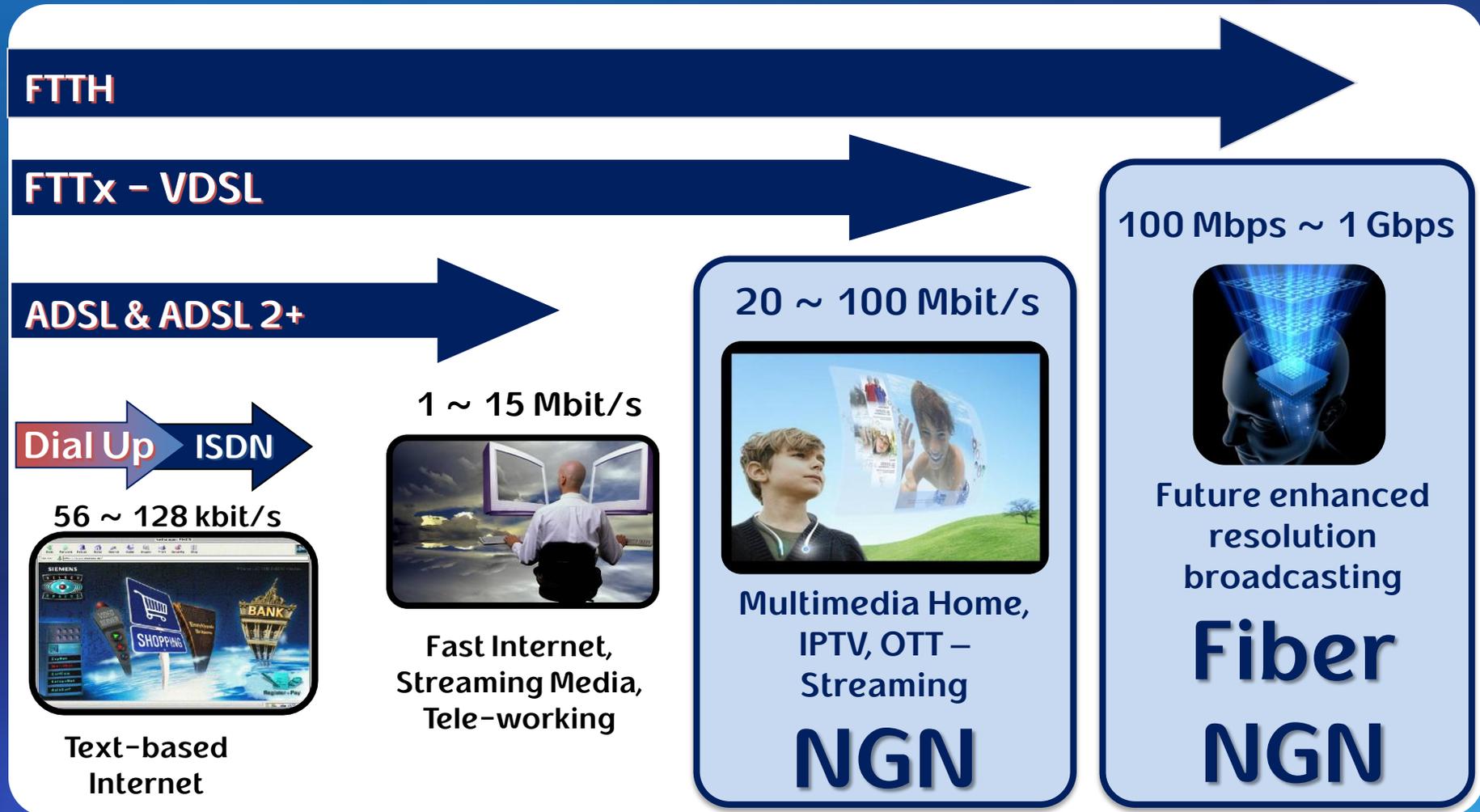
# Continuing to the next stage and expanding fiber deployment



September 2009

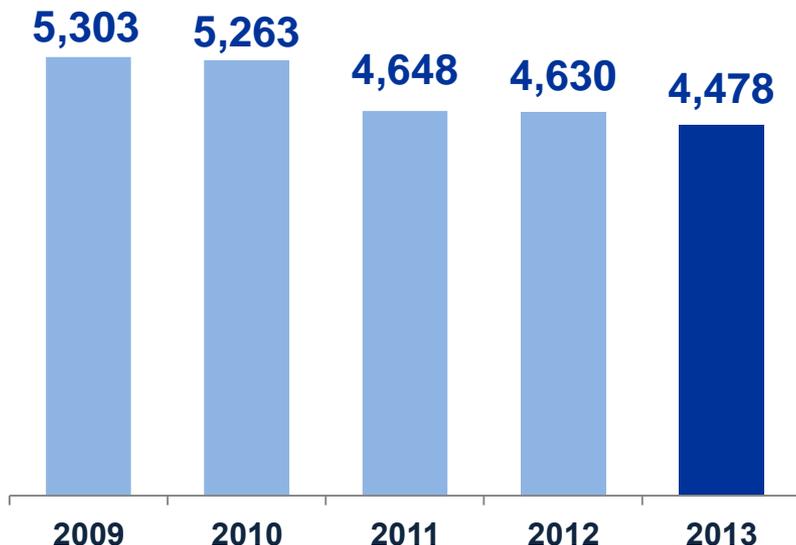
August 2012

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

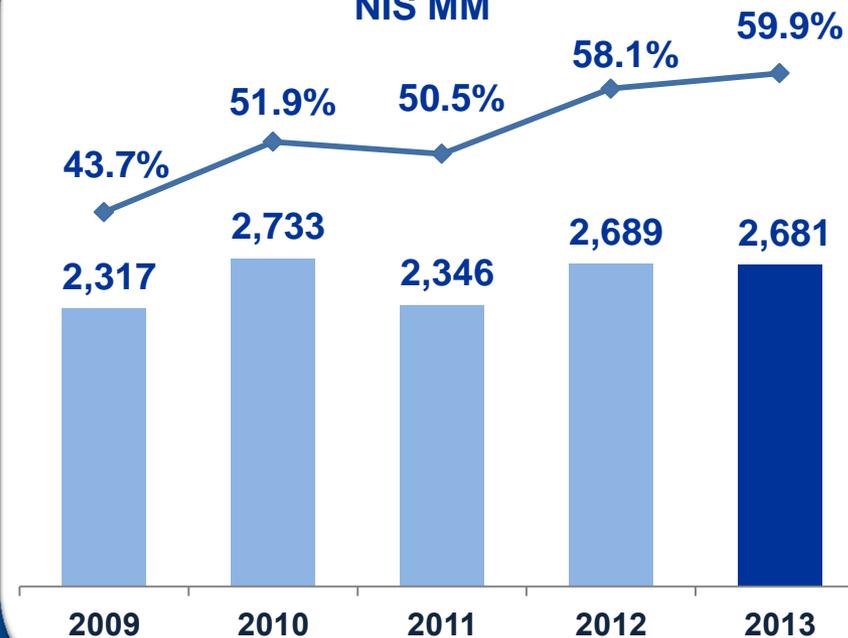


# Fixed Line – Revenue & EBITDA

Fixed Line Revenue  
NIS MM



Fixed Line EBITDA  
NIS MM



- Revenue in 2013 decreased 3.3% primarily due to a reduction in telephony revenues partially offset by a 10.4% increase in Internet services.
- EBITDA in 2013 was essentially unchanged at NIS 2.68 billion primarily due to the relative stabilization of revenues versus the year ago performance and a decrease in operating expenses. Fixed Line EBITDA margin rose to a full year record 59.9%.



**Pelephone**

**Cellular**



- 2.64 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

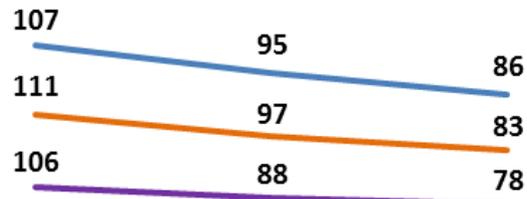


- Competitive dynamics and move to unlimited offerings resulted in lower ARPU and increased churn
- Pelephone applied a focused strategy around its advanced high quality network as a key differentiator
- Pelephone executed the most successful crisis strategy among mobile operators, allowing it to emerge from the 2012-2013 market pressure as the clear winner among incumbent operators
  - Lowest churn rate
  - Best financial profitability and ARPU

# Telephone versus peers

## ARPU (NIS)

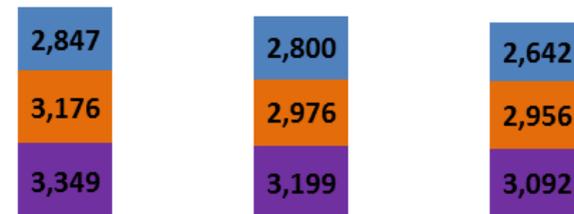
Cellcom Partner Pelephone



2011 2012 2013

## Subscribers (in 000's)

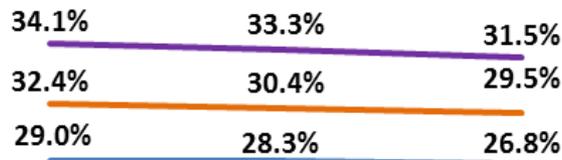
Cellcom Partner Pelephone



2011 2012 2013

## Market Share

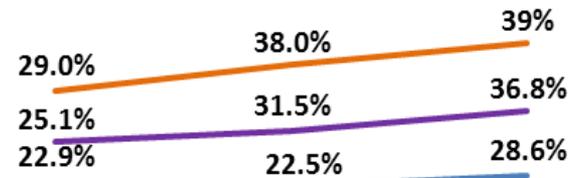
Pelephone Partner Cellcom



2011 2012 2013

## Churn rate

Pelephone Cellcom Partner



2011 2012 2013

# Network Speed Leadership



## FASTEST iPHONE NETWORK WORLDWIDE

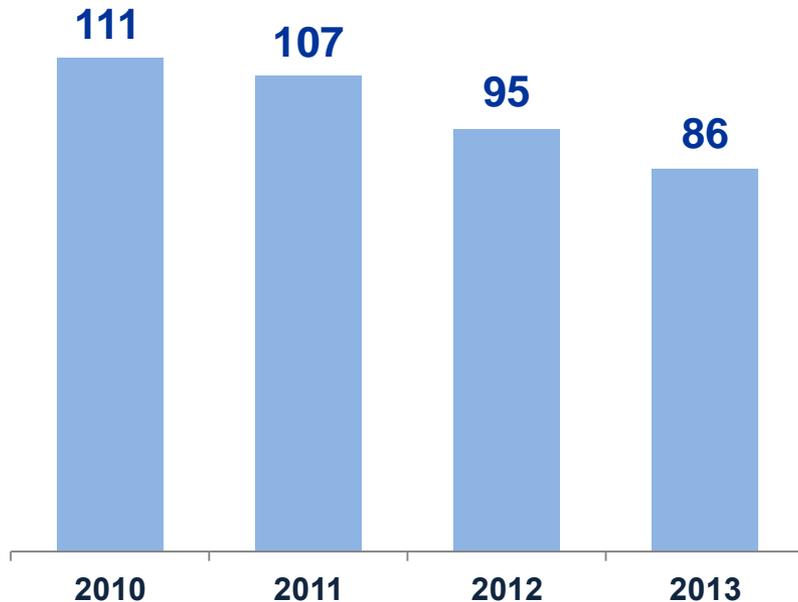


- Pelephone's HSPA was honored with the accolade of offering the highest average iPhone speed among 104 wireless carriers worldwide.

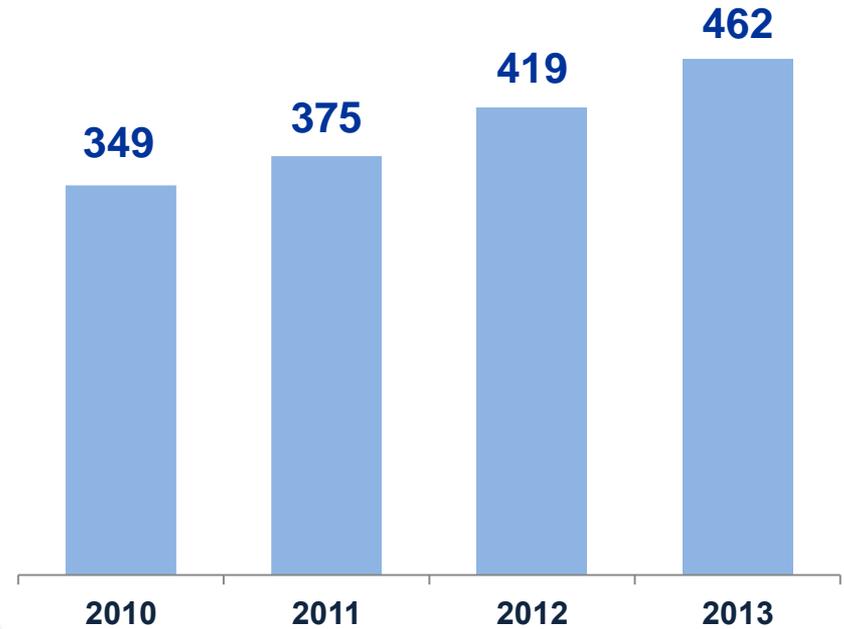
- Ookla Net Metrics

# Telephone KPIs

ARPU (NIS)



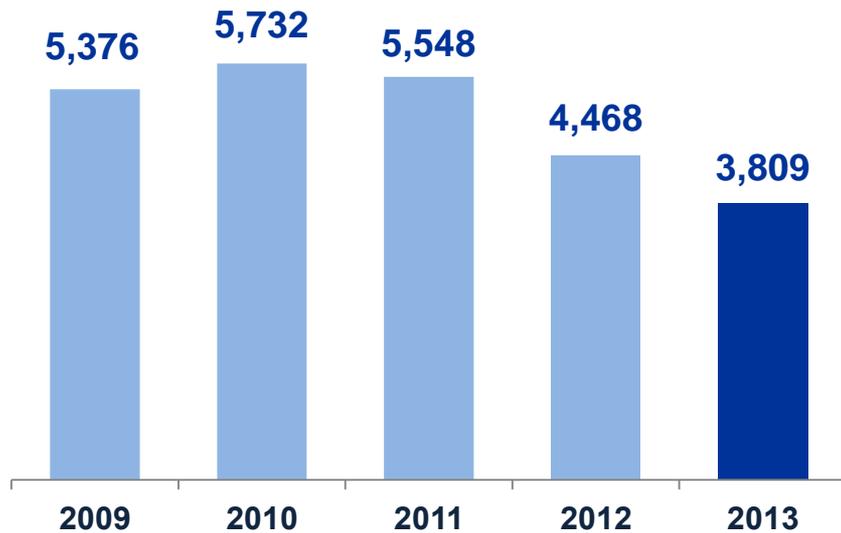
Minutes of Use (MOU)



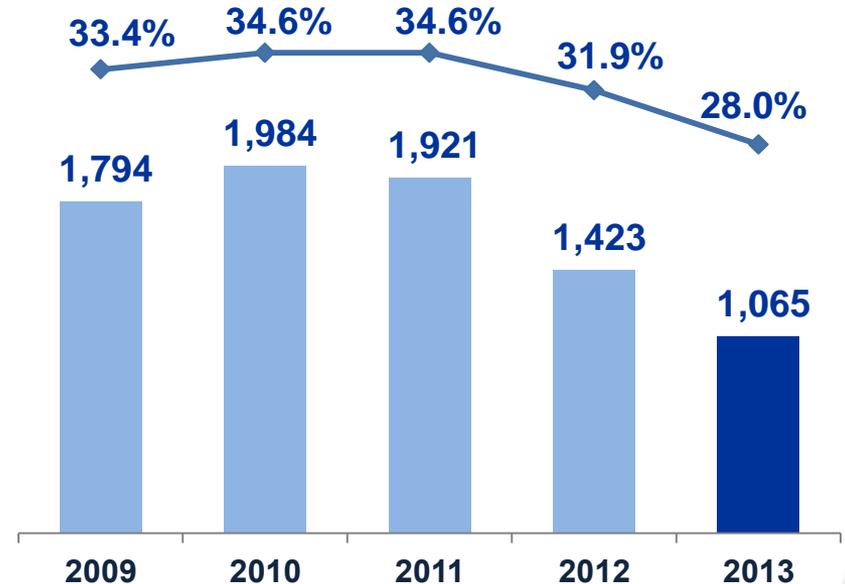
- ARPU decreased 9.5% in 2013 due to a reduction in tariffs as a result of increased competition.
- The 10.3% Y-o-Y increase in MOU was driven by a transition to higher levels of unlimited call packages.

# Pelephone – Revenue & EBITDA

Pelephone Revenue  
NIS MM



Pelephone EBITDA  
NIS MM



- The Y-o-Y decline in revenue and EBITDA in 2013 was driven by an increased competitive environment resulting in a reduction in tariffs, partially offset by increased wholesale revenues from communication operators hosted on Pelephone's network.



Bezeq  
International

**ISP / ILD / ICT**

# Bezeq International

## Israel's Leading Internet & International Telecom Provider

### ISP



- Leading broadband Internet service in Israel
- Approximately 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

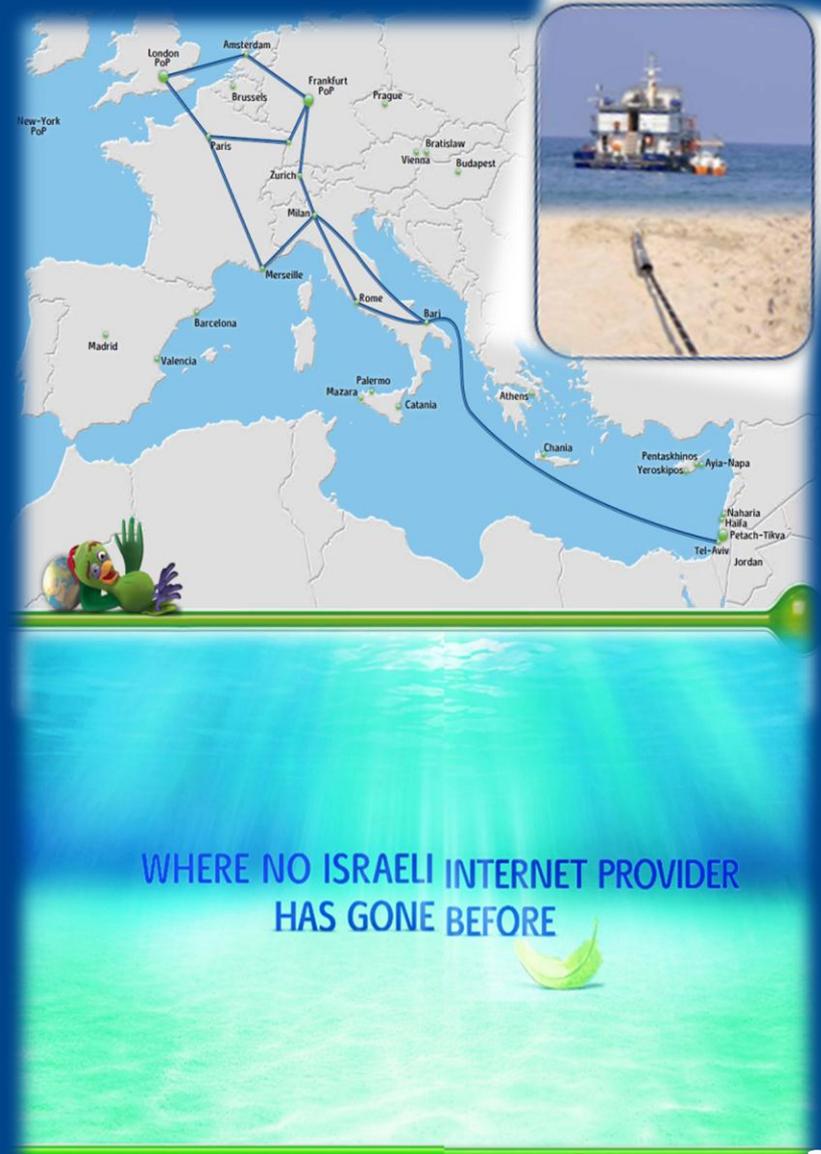


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

# Bezeq International's Submarine Cable

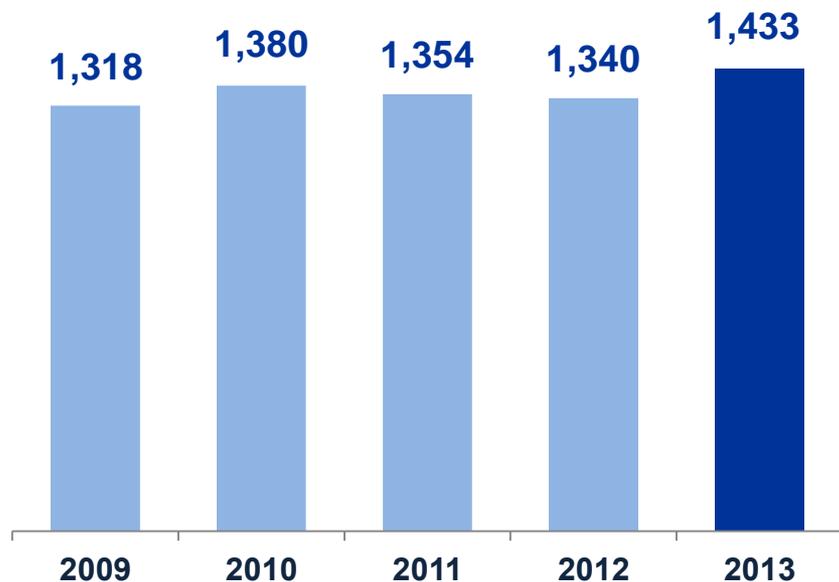
Bezeq International's submarine cable provides a platform to:

- 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

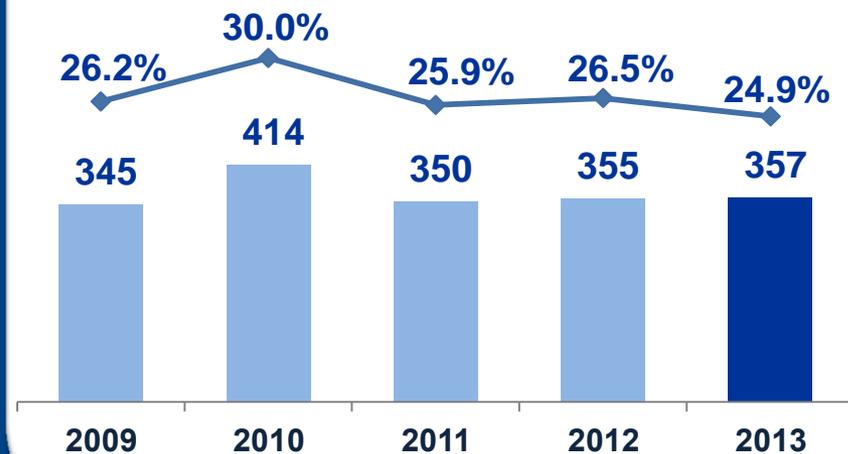


# Bezeq International – Revenue & EBITDA

Bezeq International Revenue  
NIS MM



Bezeq International EBITDA  
NIS MM



- Revenue in 2013 increased 6.9% Y-o-Y to a record NIS 1.43 billion due to growth in business communication and IT solutions (ICT), hubbing activities as well as in Internet services delivered across the submarine cable and NGN.
- EBITDA in 2013 rose 0.5% Y-o-Y to NIS 357 million, for an EBITDA margin of 24.9%.



**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*
- *601,000 subscribers*
- *40% market share*
- *160 channels of content*
  - *Including 39 Yes branded channels*

# Yes – Advanced Services

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

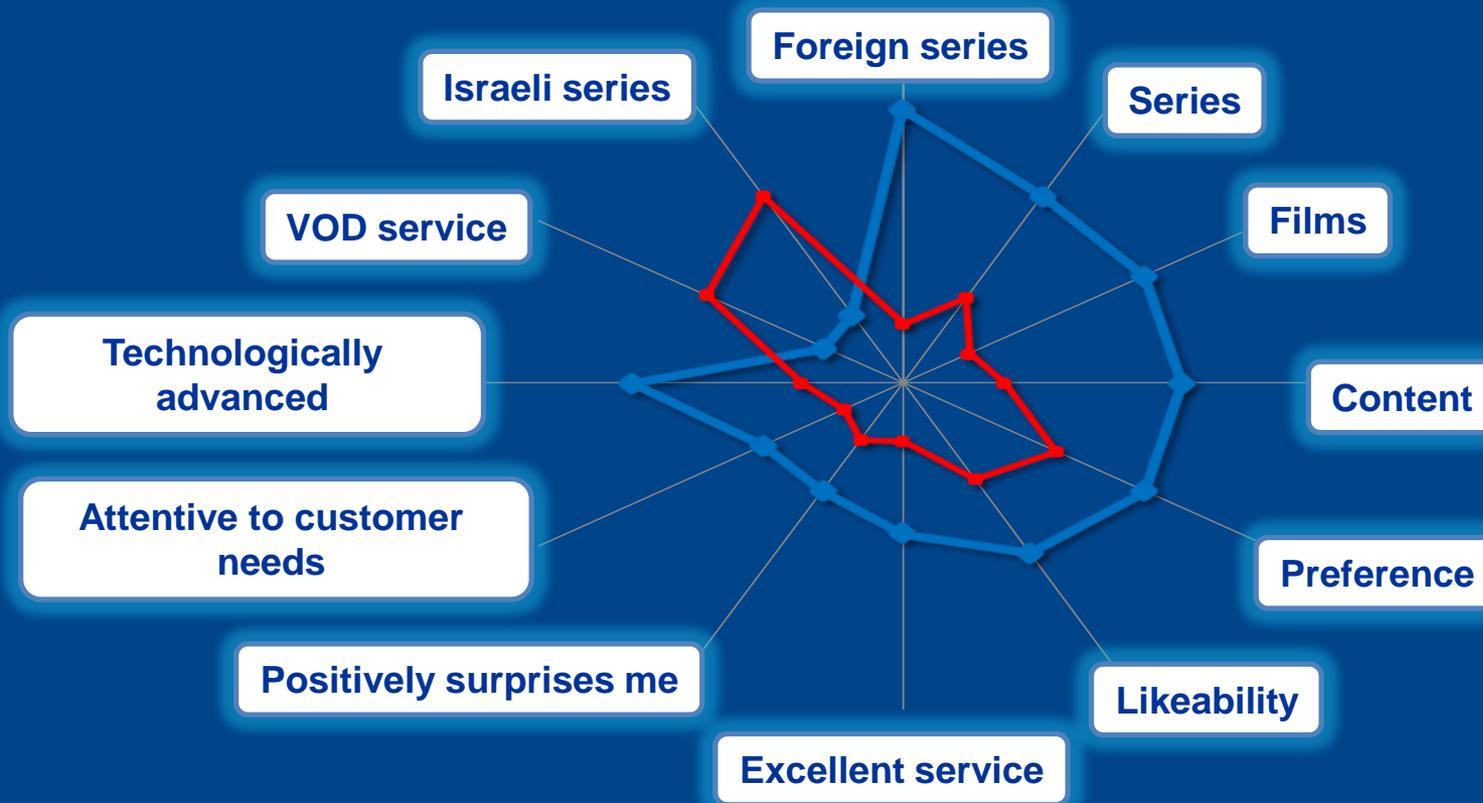
**yes.VOD**



## Ultimate Viewing Experience

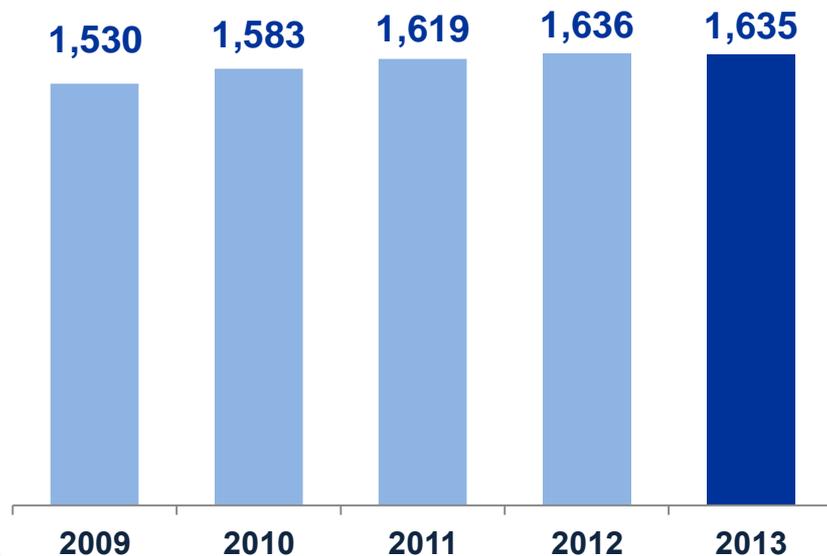
- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

# Yes' Brand Image Significant Advantages

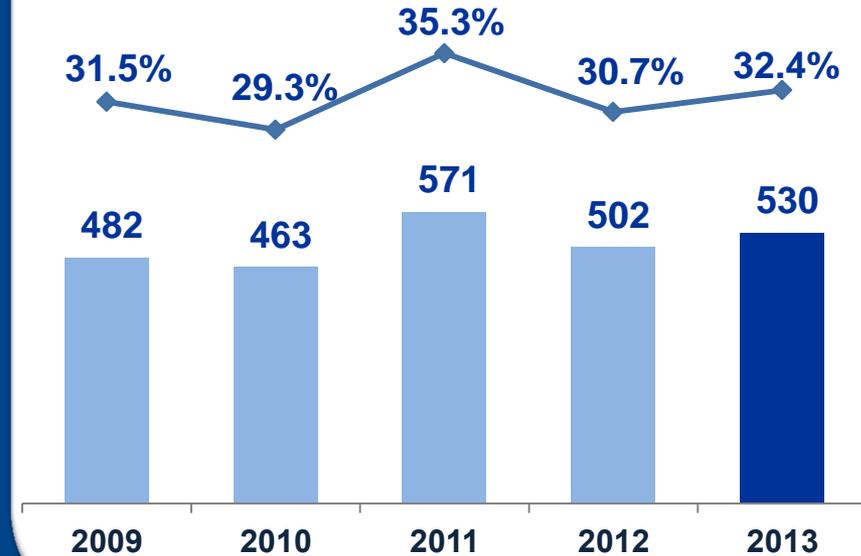


# Yes – Revenue & EBITDA

Yes Revenue  
NIS MM



Yes EBITDA  
NIS MM



- Revenue held steady at NIS 1.64 billion in 2013 versus the year ago supported by a 4% increase in subscribers and stability in segment ARPU.
- EBITDA in 2013 increased 5.7% Y-o-Y to NIS 530 million, primarily due to a decrease in marketing and content expenses as well as the cancellation of royalty fees.

# 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)