



BEZEQ
(TASE: BEZQ)

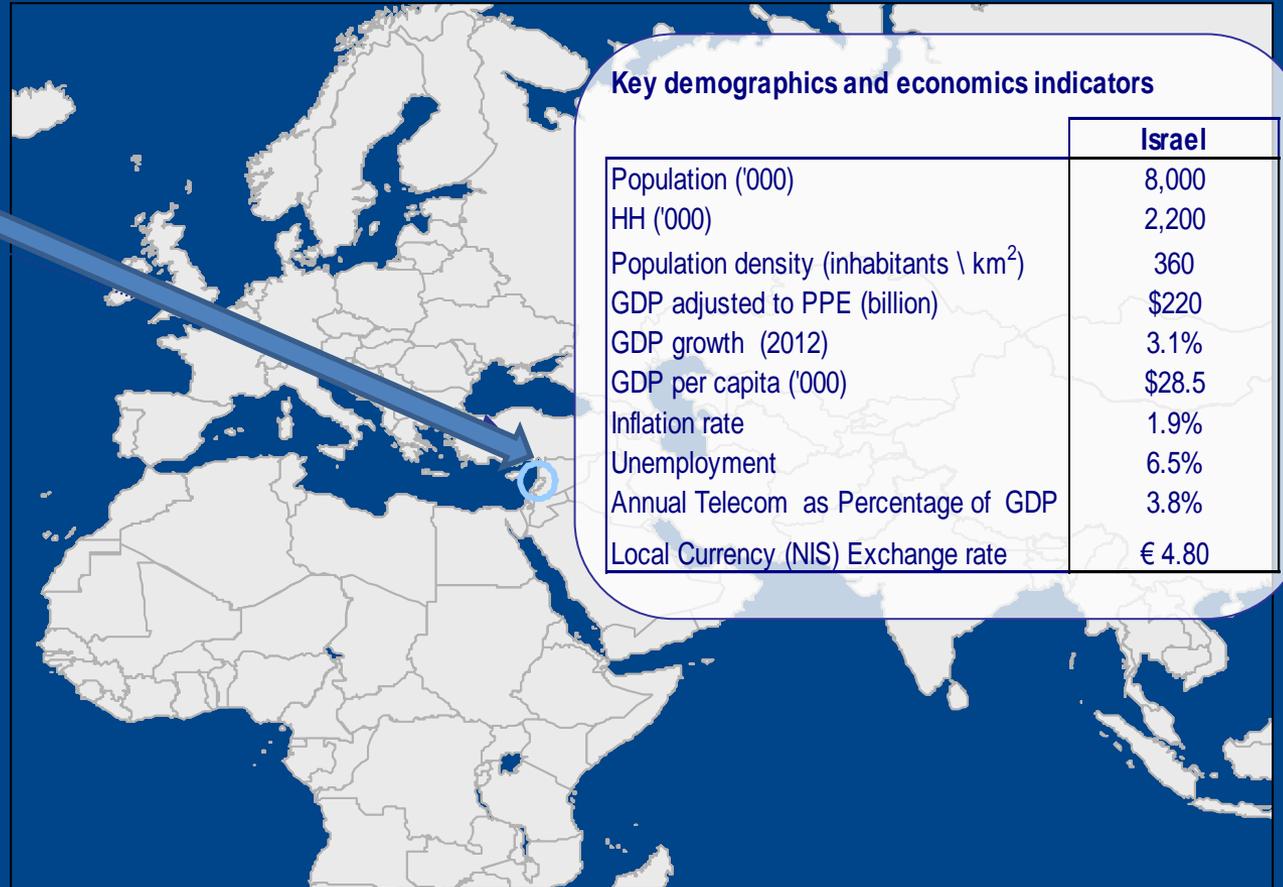
Investor Presentation
Third Quarter 2013

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

- LTM Revenue: NIS 9.60 billion
- Most comprehensive range of offerings
 - 2.22 million fixed customer lines
 - 2.68 million cellular customer lines
 - 1.23 million broadband lines
 - 593,000 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



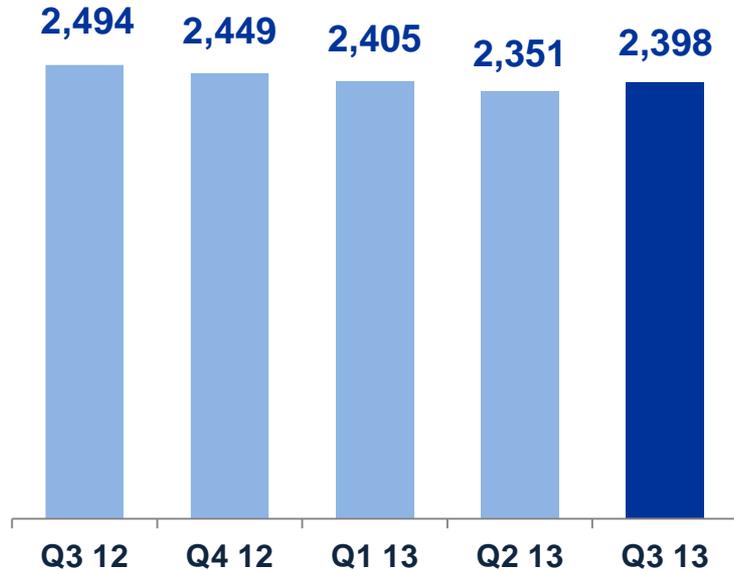
- New high-speed submarine cable system deployed between Israel and Europe
- Increasing bandwidth at affordable rates



Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM



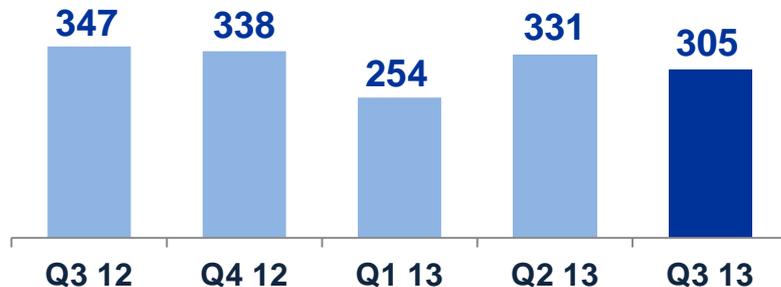
Consolidated EBITDA
NIS MM



- Consolidated revenue in Q3 2013 increased 2.0% sequentially. The 3.8% Y-o-Y decline was mainly due to a reduction in Telephone revenues from cellular services and equipment.
- EBITDA increased 2.3% Y-o-Y in Q3 as improvements in efficiency measures and cost cutting efforts enacted throughout the group companies had a positive impact.

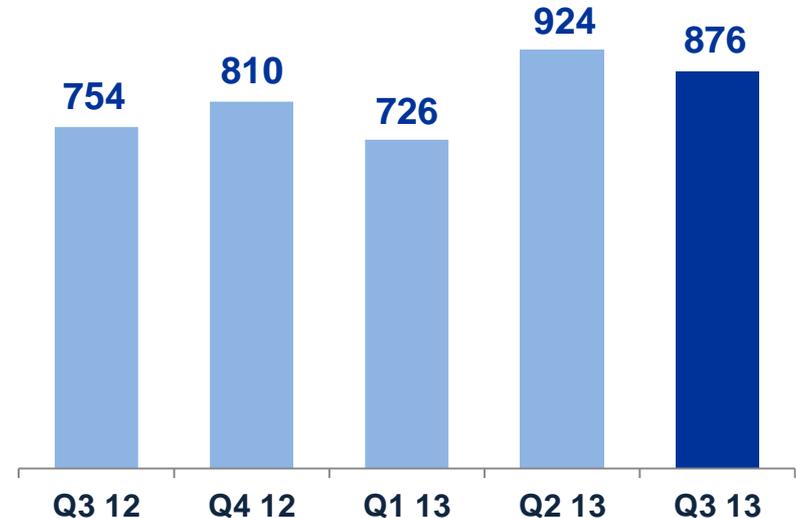
Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx
NIS MM



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

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

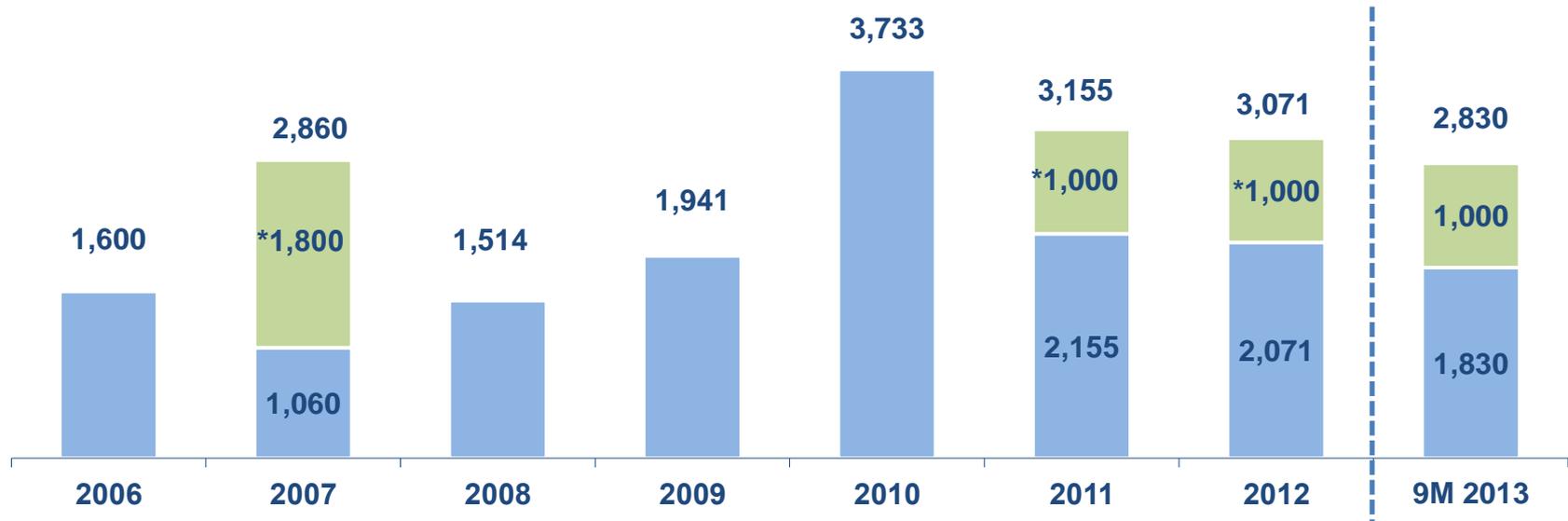


1. Free cash flow defined as Cash Flow from Operations– Net Capex
2. Excluding yes

- Capex in Q3 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 Q3 2013 increased 16.2% Y-o-Y due to the record cash flow from operating activities driven by increased profitability.

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)

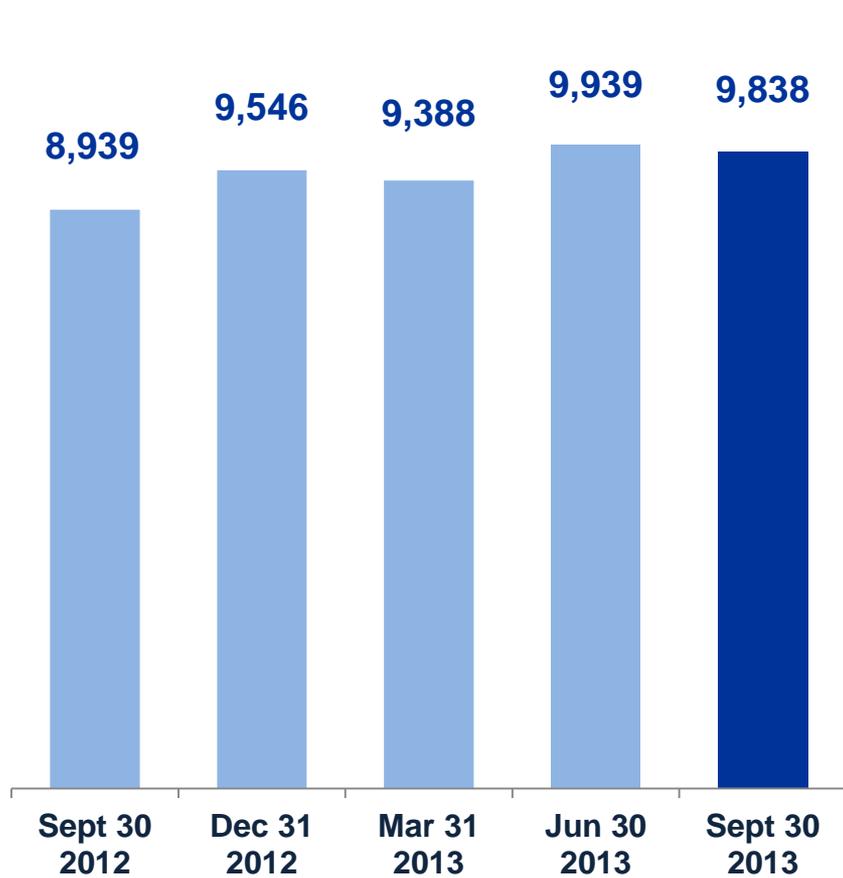


* Special dividend

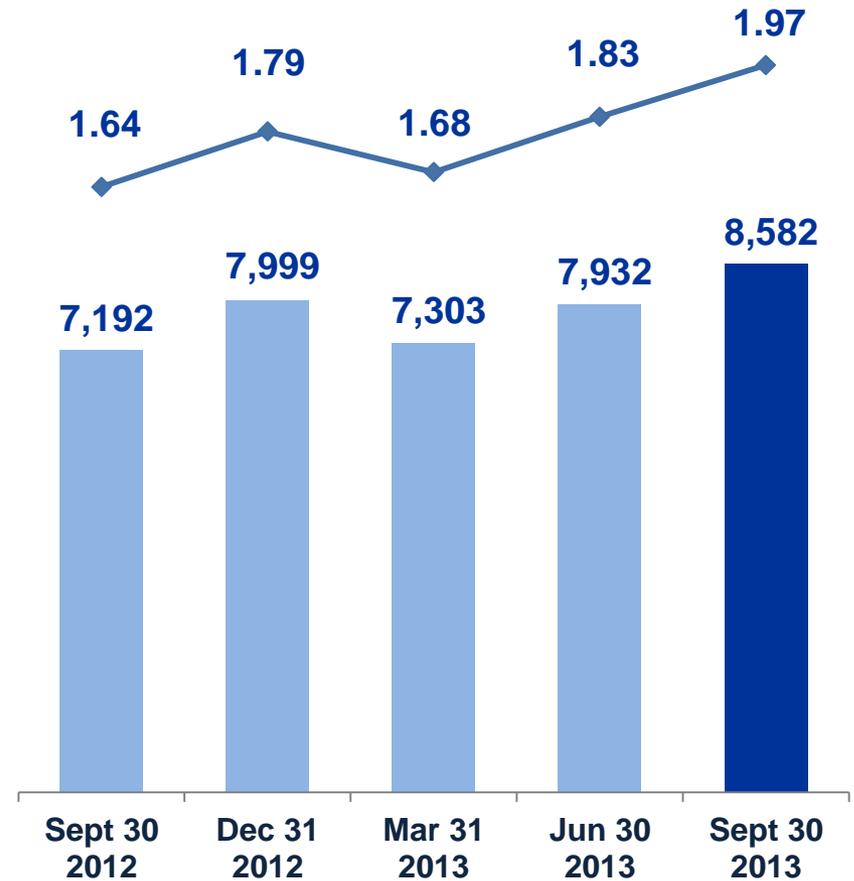
- **Regular Dividends:** 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis.
- **Special Dividends:** Six semi-annual NIS 500 million payments running from 2011 to 2013, as part of the Company's capital reduction plan. The sixth and final payment was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

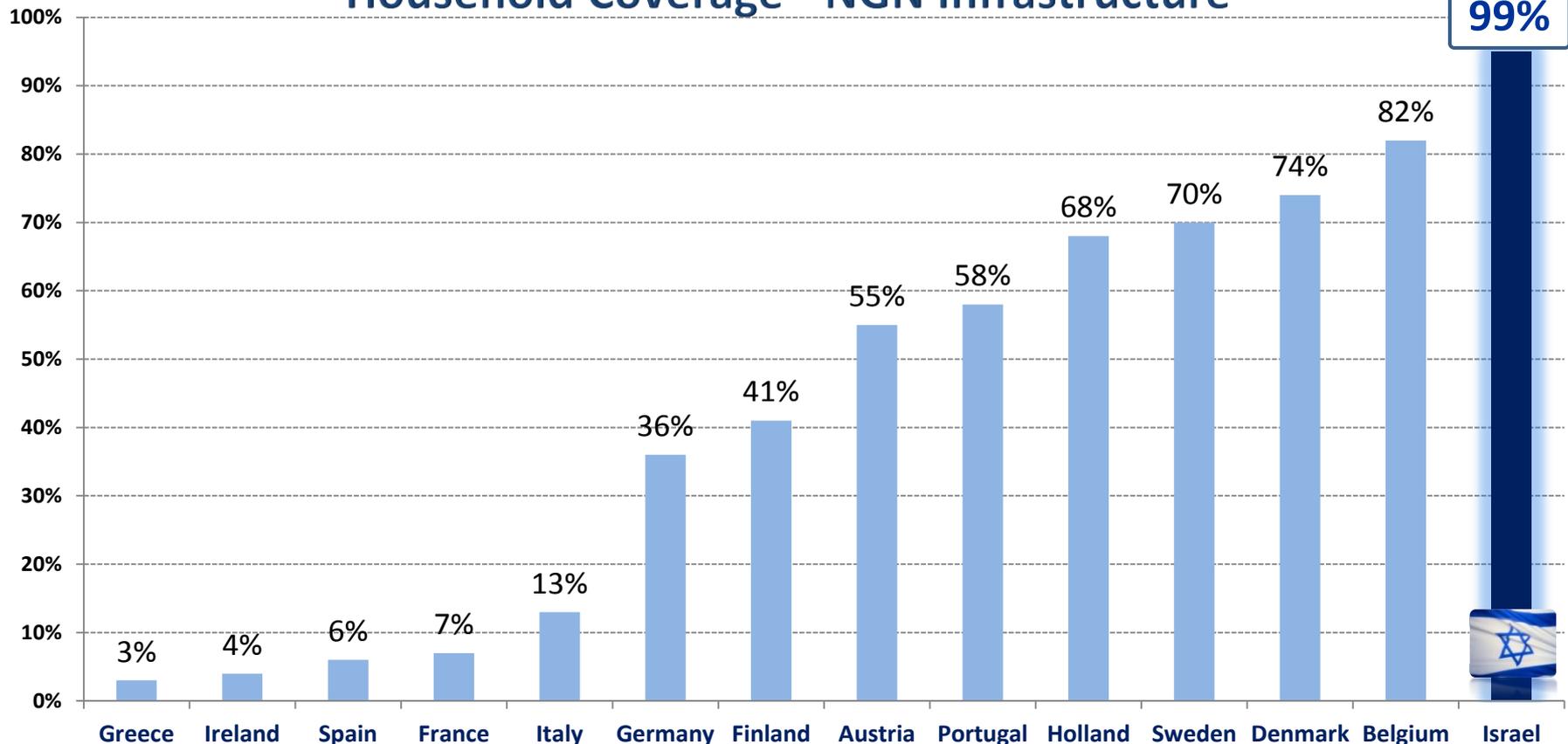


Bezeq is uniquely positioned as the dominant provider of the full range of telecom products and services in Israel

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

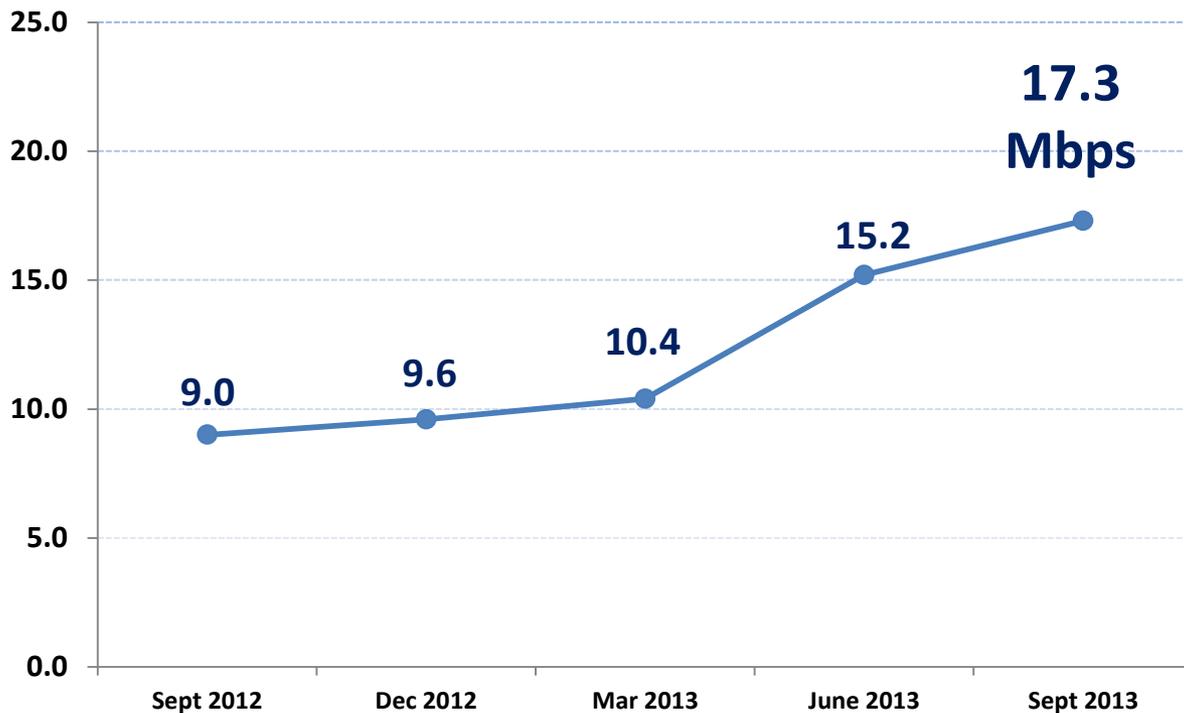
Household Coverage - NGN Infrastructure



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

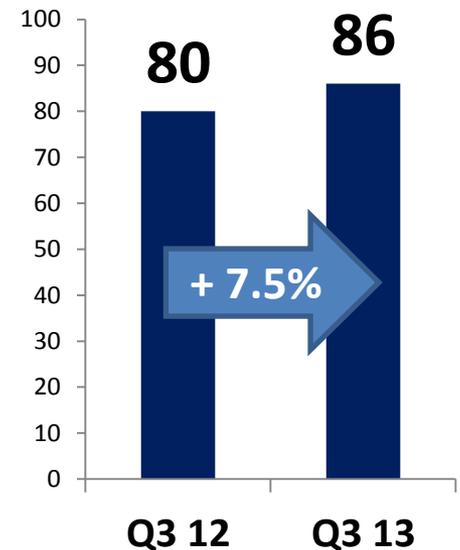
NGN Increasing Average Broadband Speeds

92% year-over-year increase in average broadband speed per subscriber



Megabits Per Second (Mbps)

Broadband Internet ARPU (NIS)



NGN
Next Generation Network

Continuing to the next stage and expanding fiber deployment

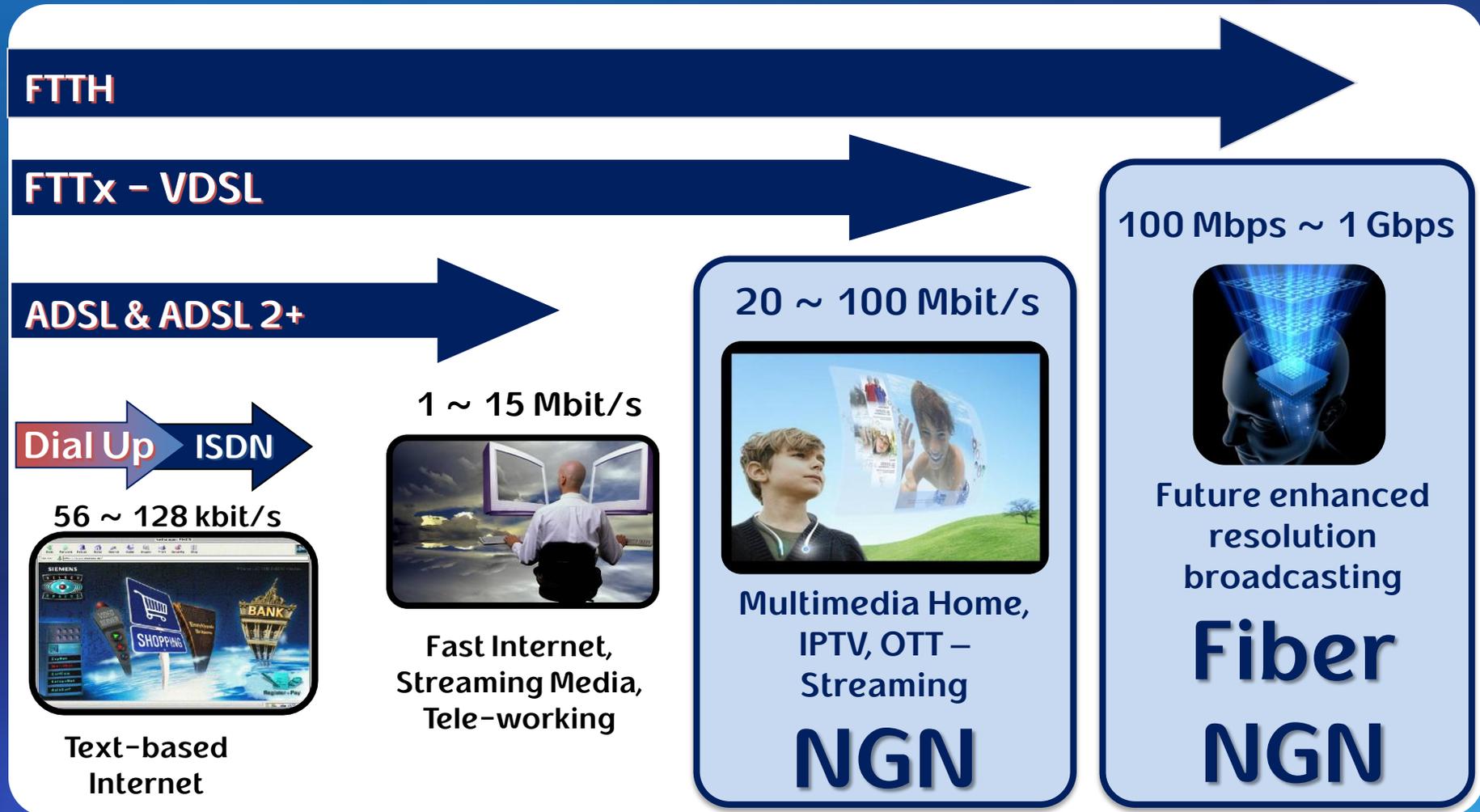


September 2009



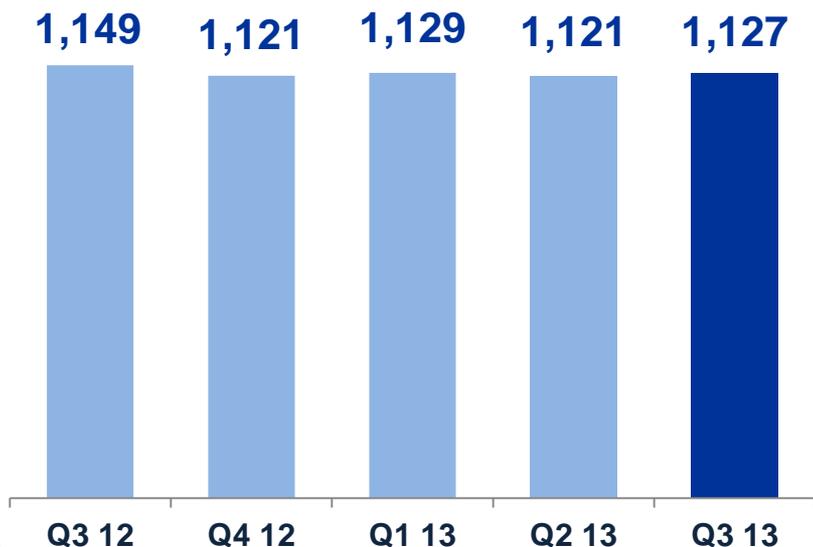
August 2012

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

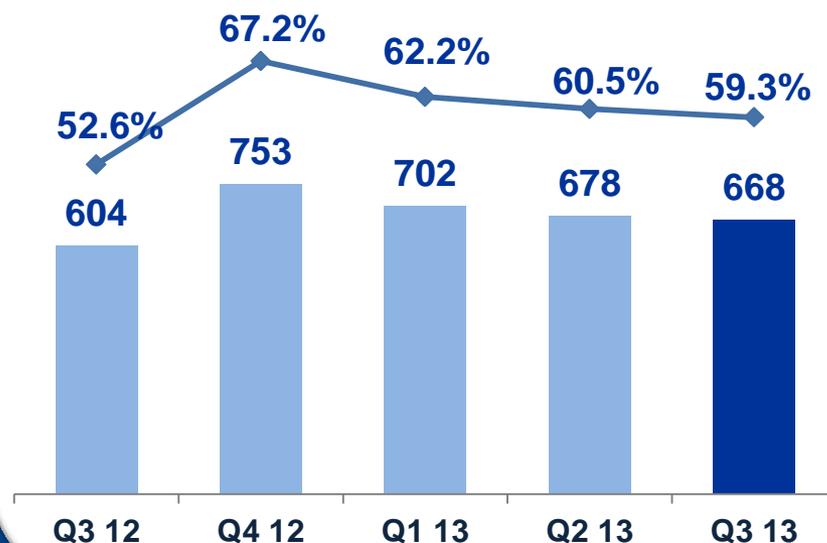


Fixed Line – Revenue & EBITDA

Fixed Line Revenue
NIS MM



Fixed Line EBITDA
NIS MM



- Revenue in Q3 2013 increased 0.5% sequentially. The 1.9% Y-o-Y decline was mainly due to a decrease in telephony revenues partially offset by a 14.1% increase in Internet revenue.
- EBITDA in Q3 2013 increased 10.6% Y-o-Y to NIS 668 million primarily due to the relative stabilization of revenues and a decrease in operating expenses.



Pelephone

Cellular



- 2.68 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



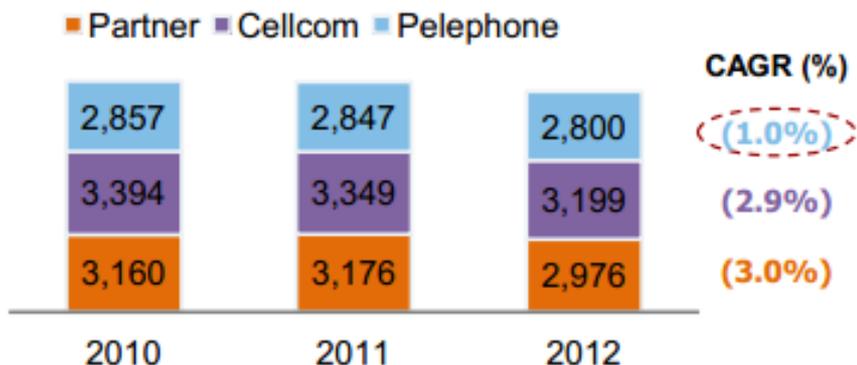
pelephone



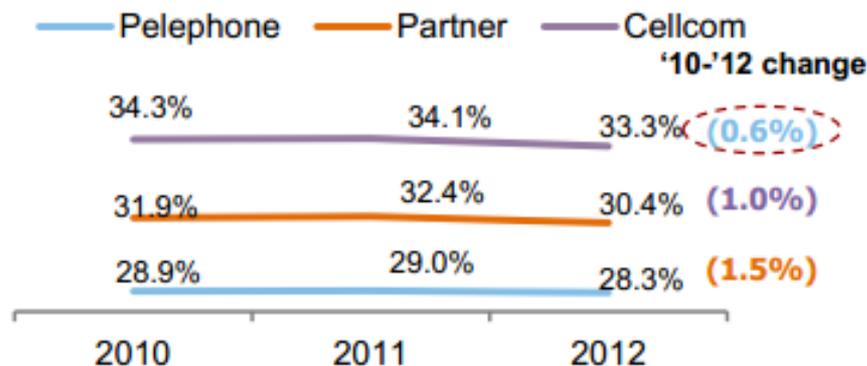
- Recent competitive dynamics and move to unlimited offerings resulted in lower ARPU and increased churn
- Pelephone applied a focused strategy around its advanced high quality network as a key differentiator
- Pelephone executed the most successful crisis strategy among mobile operators, allowing it 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

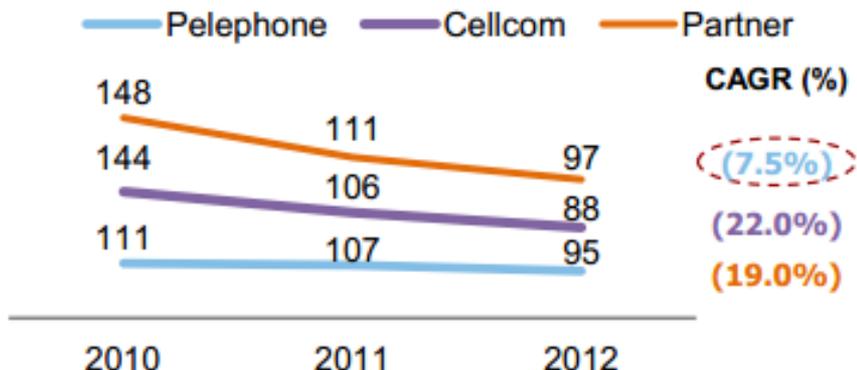
No of subscribers (in 000's)



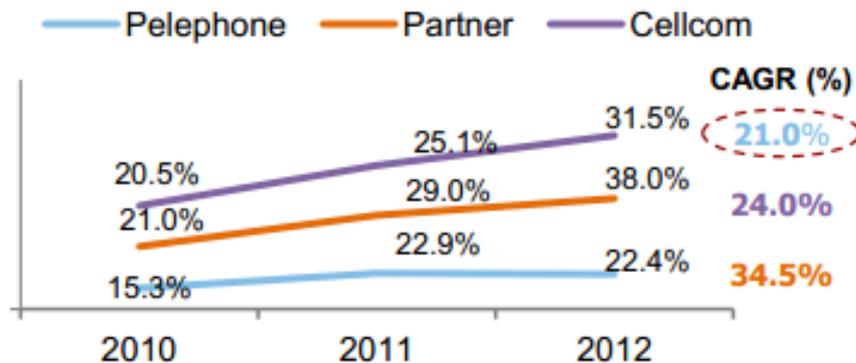
Market shares(%)



ARPU (NIS)



Churn rate (%)



Source: Company filings

Network Speed Leadership



FASTEST iPHONE NETWORK WORLDWIDE

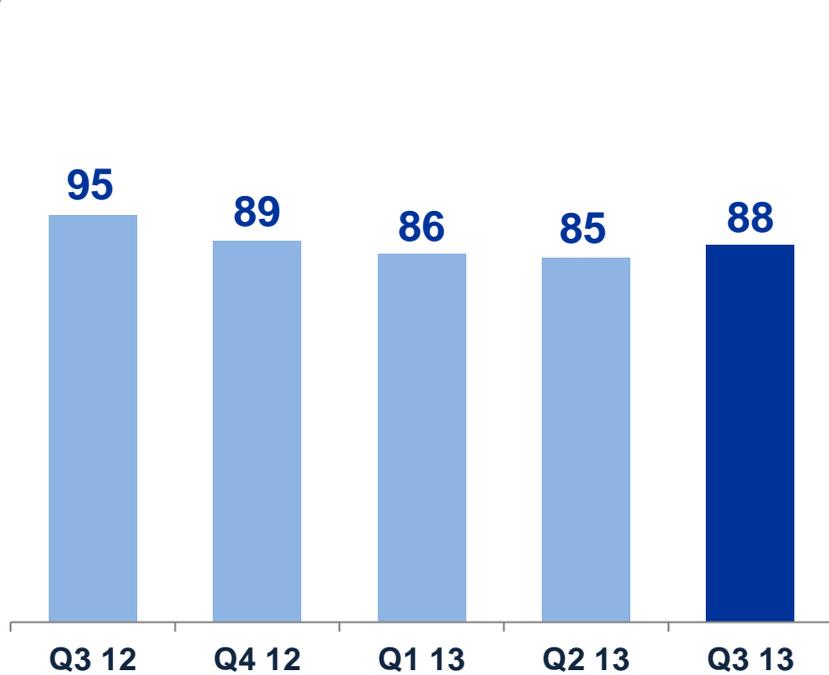


- Pelephone's HSPA was honored with the accolade of offering the highest average iPhone speed among 104 wireless carriers worldwide.

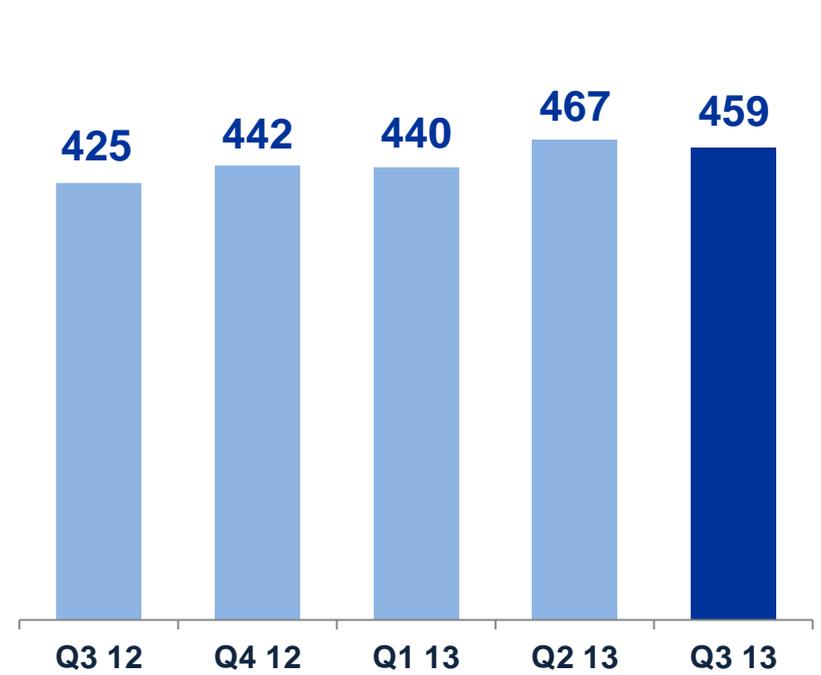
- Ookla Net Metrics

Telephone KPIs

ARPU (NIS)



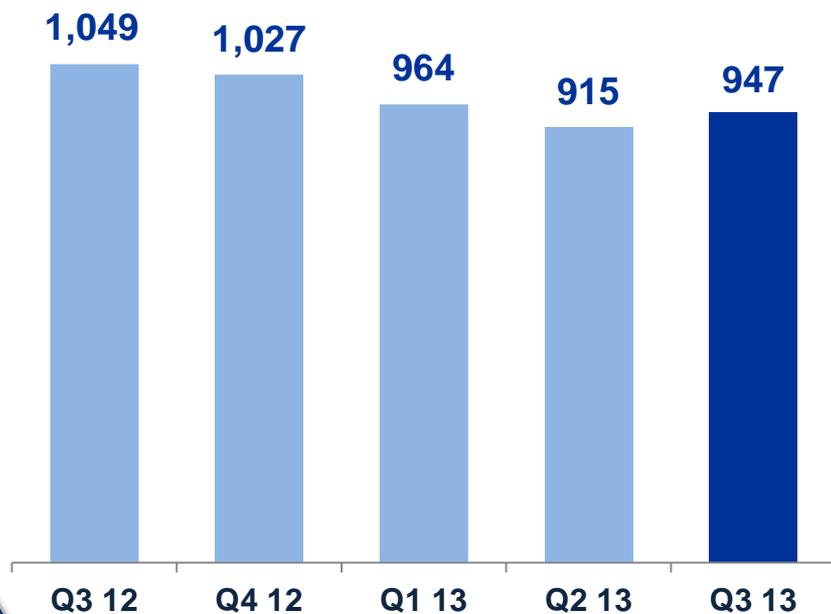
Minutes of Use (MOU)



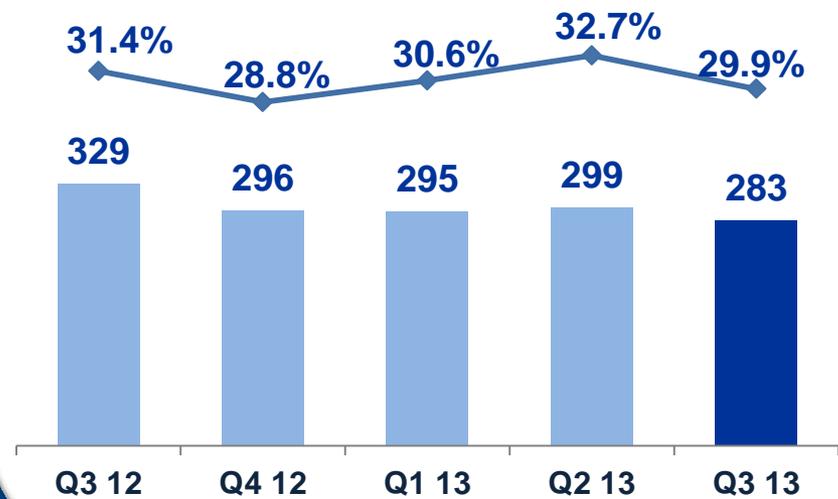
- ARPU increased sequentially by 3.5% in Q3 due to the positive effects of seasonality resulting in increased roaming service revenues.
- The 8.0% Y-o-Y increase in MOU was driven by a transition to unlimited call packages.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- The Y-o-Y decline in revenue 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

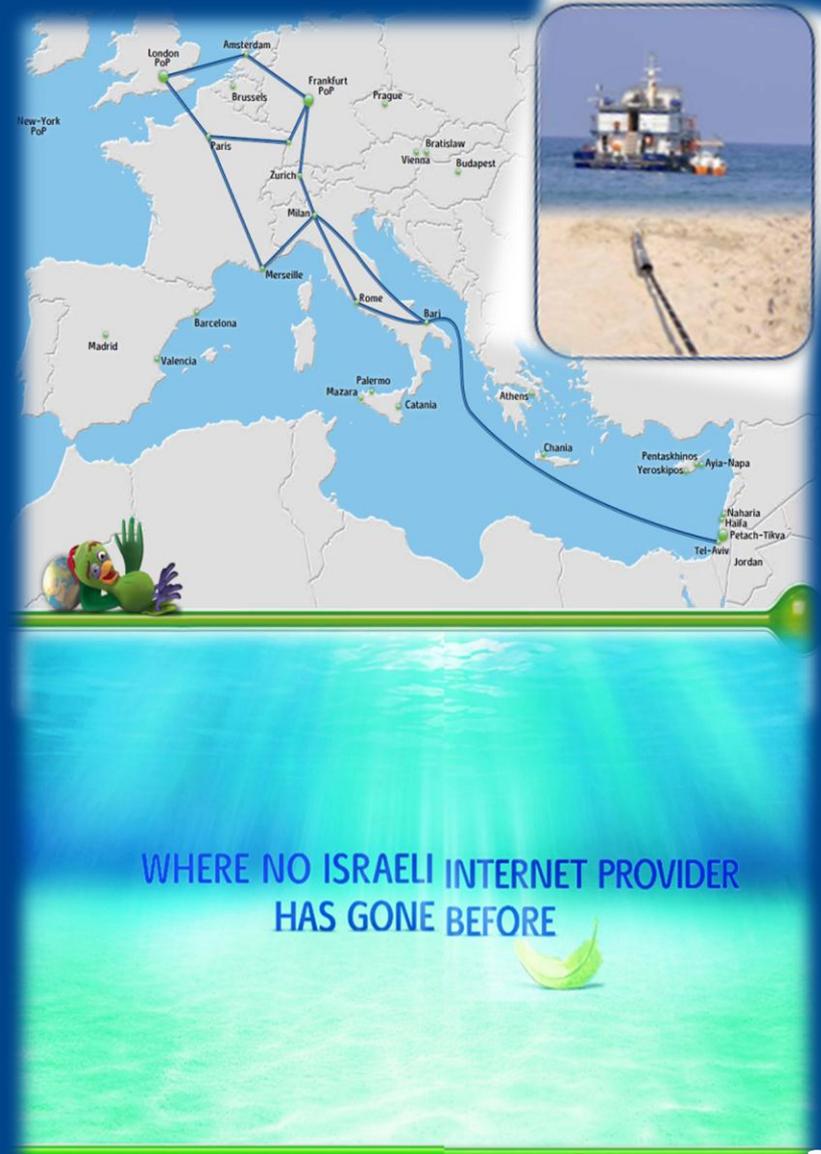


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

Bezeq International's 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

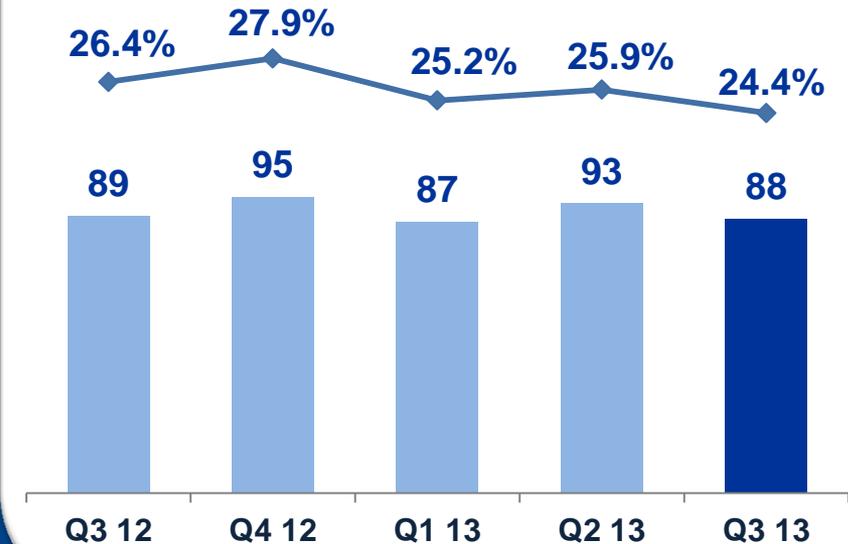


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in Q3 2013 increased 6.2% Y-o-Y to a record NIS 360 million due to growth in ICT and hubbing activities as well as in Internet services delivered across the submarine cable and NGN.
- EBITDA in Q3 2013 declined 1.8% Y-o-Y to NIS 88 million, for an EBITDA margin of 24.4%.



**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*
- *593,000 subscribers*
- *40% market share*
- *142 channels of content*
 - *Including 39 Yes branded channels*

Yes – Advanced Services

yes.Max TOTAL
Max + HD + VOD

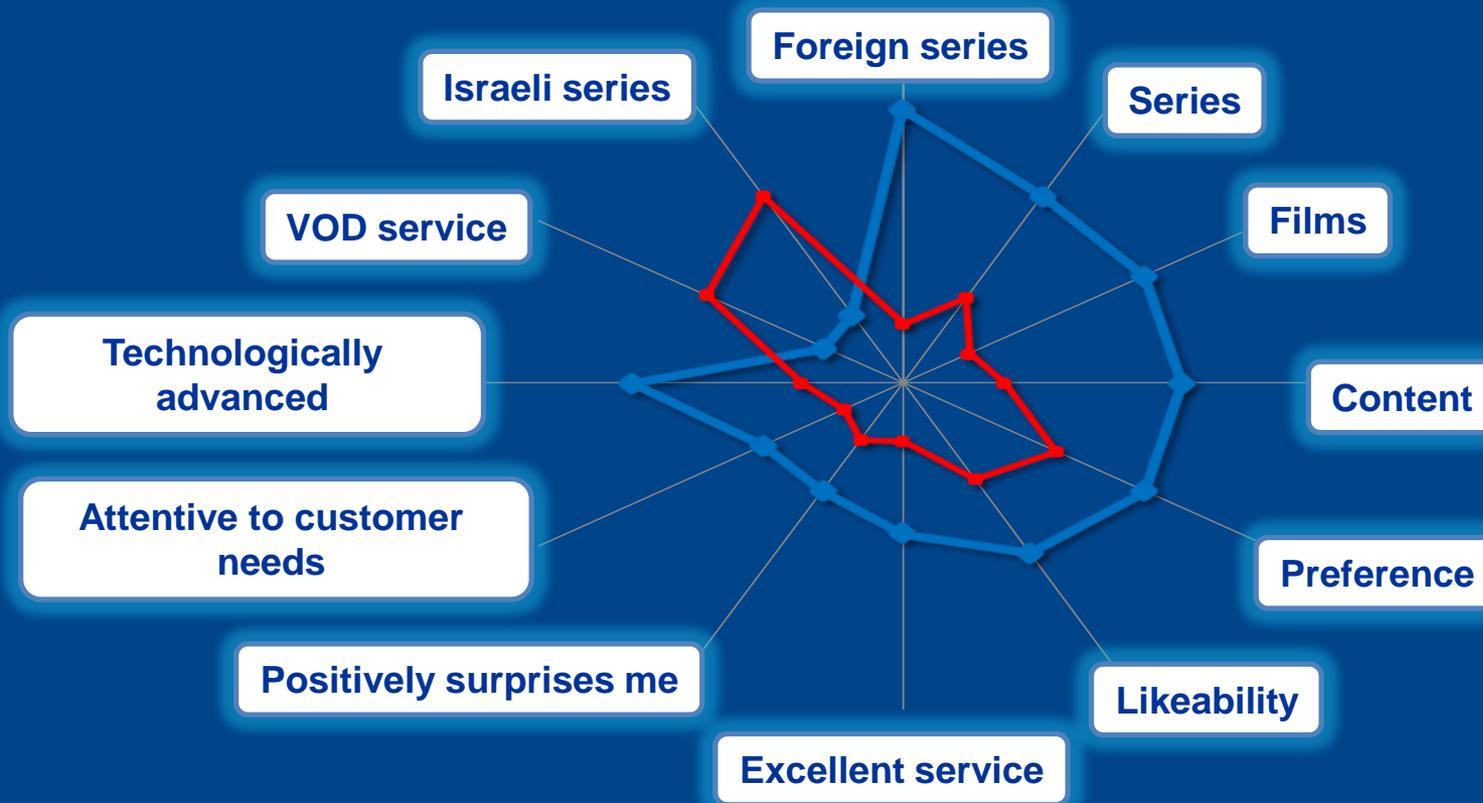
yes.VOD



Ultimate Viewing Experience

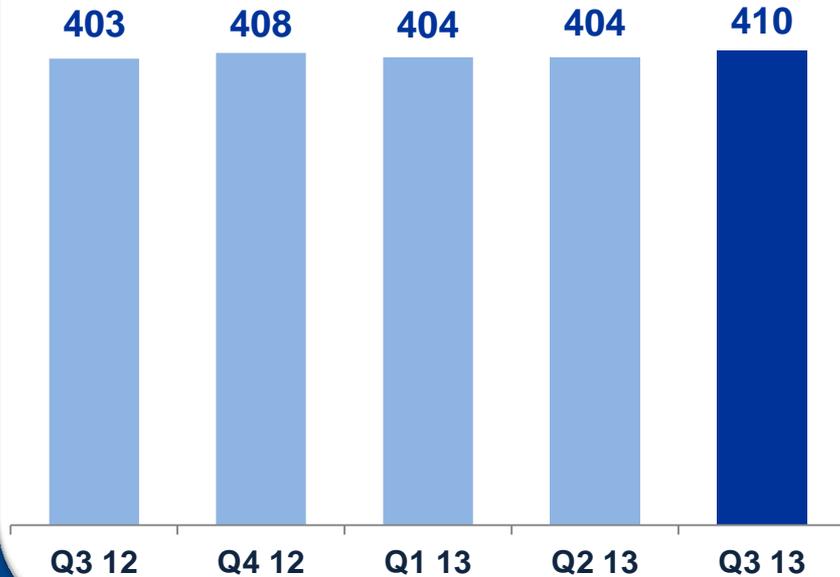
- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

Yes' Brand Image Significant Advantages

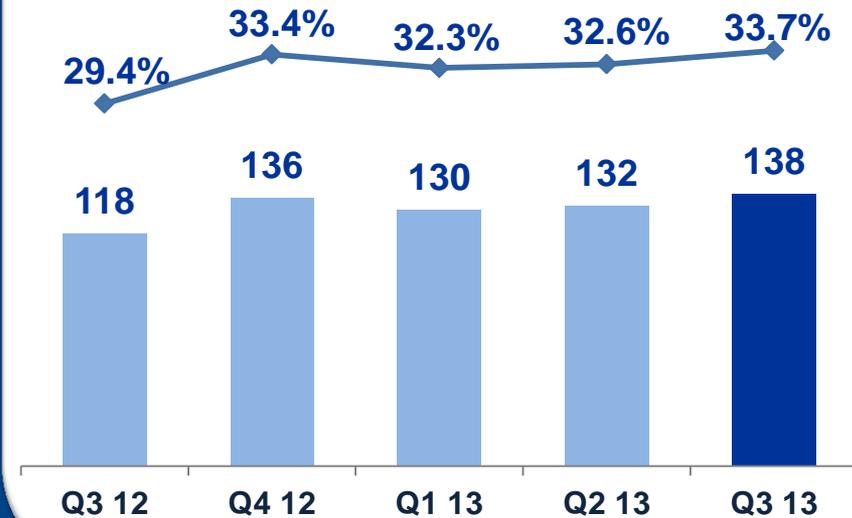


Yes – Revenue & EBITDA

Yes Revenue
NIS MM



Yes EBITDA
NIS MM



- Revenue in Q3 2013 increased 1.9% Y-o-Y to NIS 410 million primarily due to an increase in subscribers as well in the average revenue per subscriber.
- EBITDA in Q3 2013 increased 16.9% Y-o-Y to NIS 138 million, primarily due to an increase in revenues and a reduction in operating 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