



BEZEQ
(TASE: BEZQ)

Investor Presentation
Q3 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.

BEZEQ

The largest provider of
telecommunications services in Israel

- LTM Revenue: NIS 9.20 billion
- Diversified portfolio in all TMT sub-markets
 - 2.21 million fixed customer lines
 - 2.60 million cellular customer lines
 - 1.34 million broadband lines
 - 623,000 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



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 nation-wide NGN converged network
- Long-term commitment to investing in state-of-the-art infrastructure and cutting-edge technologies

The Bezeq Advantage



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

- Well balanced capital structure
- De-regulation 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 on track to cover 1M households by end of 2014

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 increase at low incremental cost



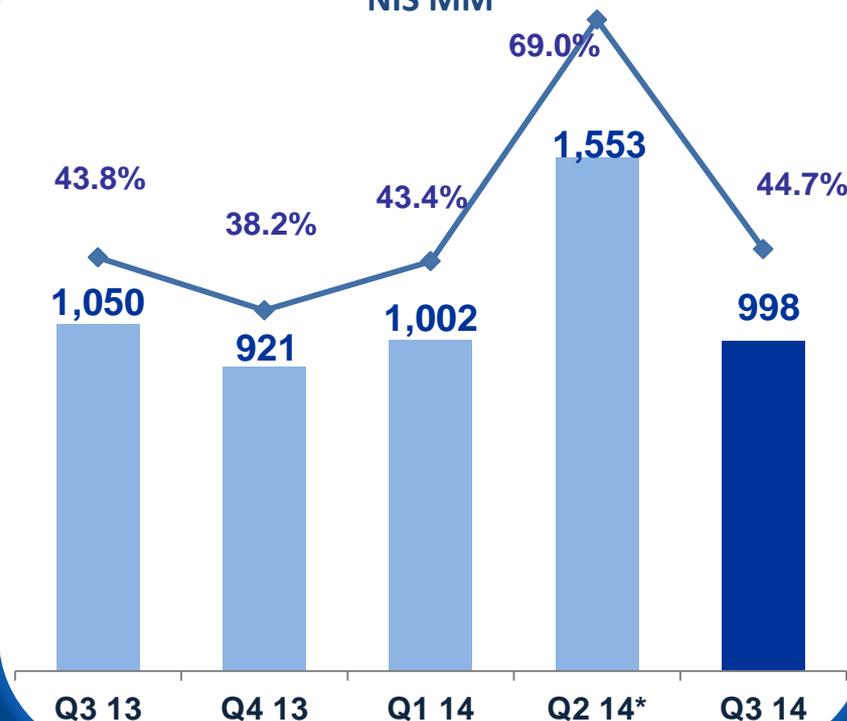
Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM



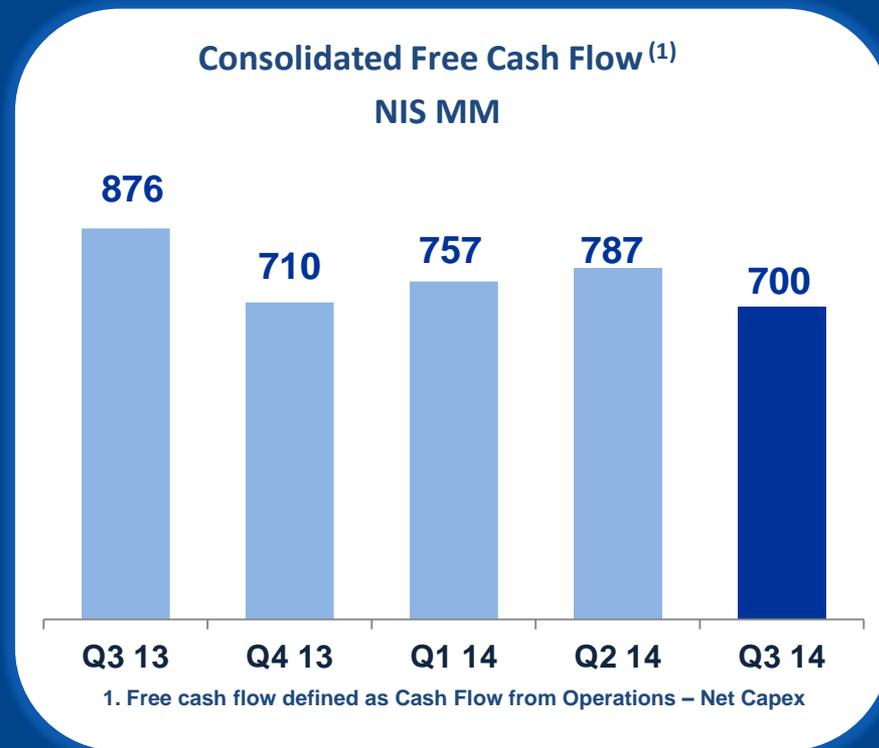
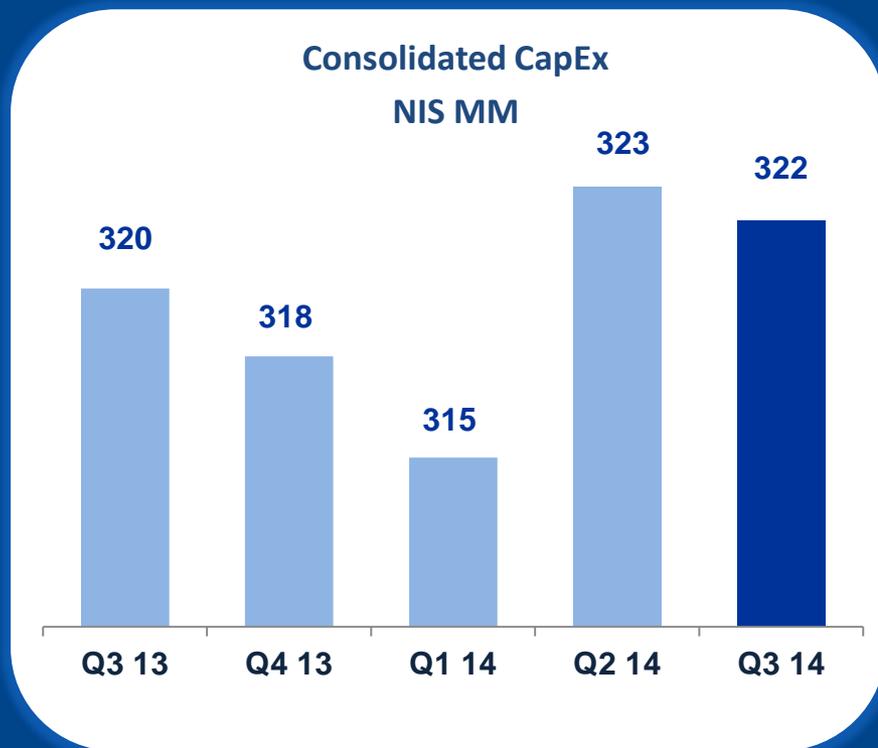
Consolidated EBITDA
NIS MM



* Includes gain from the sale of Yad2

- Consolidated 3Q 2014 revenue decreased 6.9% 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 mainly due to a decrease in fixed call termination rates.
- 3Q 2014 EBITDA decreased 5.0% y-o-y, due to a decrease in the profitability of Pelephone.

Bezeq Group – CapEx & Free Cash Flow



- Bezeq continued its rollout of Fixed Line's advanced fiber-to-the-building (FTTB) network deployment in Q3 2014. Capex also included investments in vectoring technology in furtherance of the Company's efforts to increase broadband speeds.
- Free cash flow in 3Q 2014 decreased 20.1% y-o-y due to a decrease in operating cash flow as a result of a reduction in Telephone profitability and changes in working capital.

Bezeq Group – 2014 Guidance

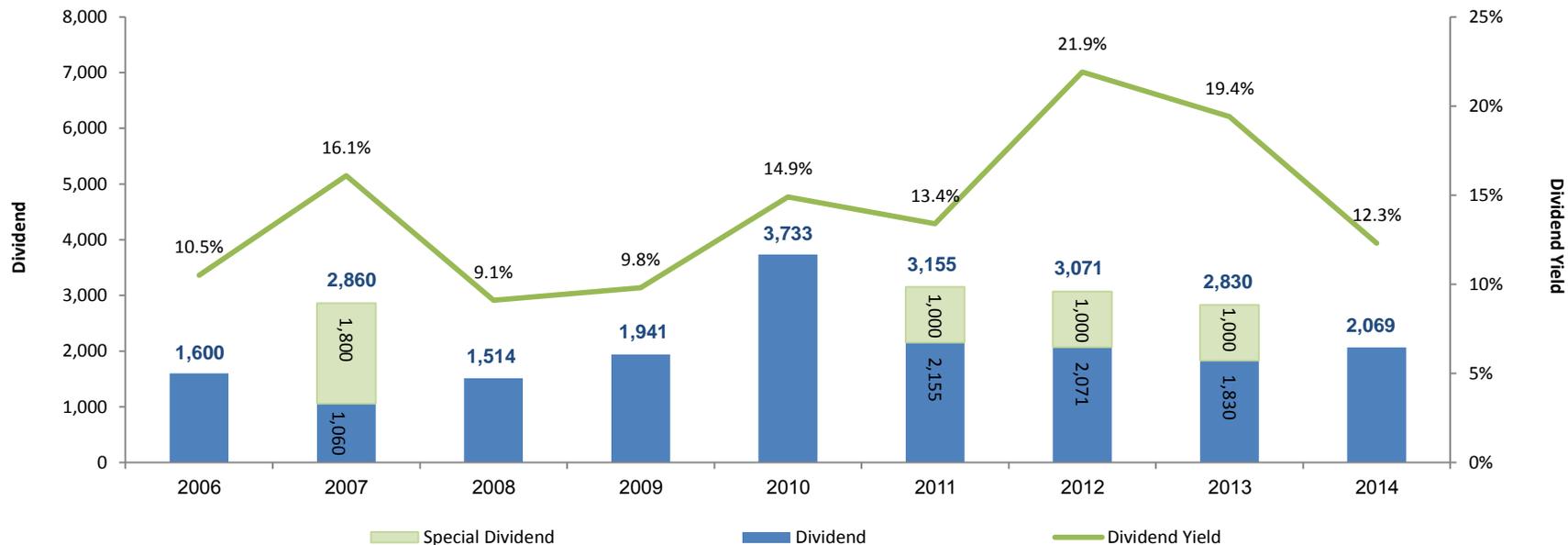
Net profit attributable to shareholders:	Approximately NIS 2.0 billion
EBITDA:	Approximately NIS 4.5 billion
Free cash flow:	Approximately NIS 2.5 billion

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)

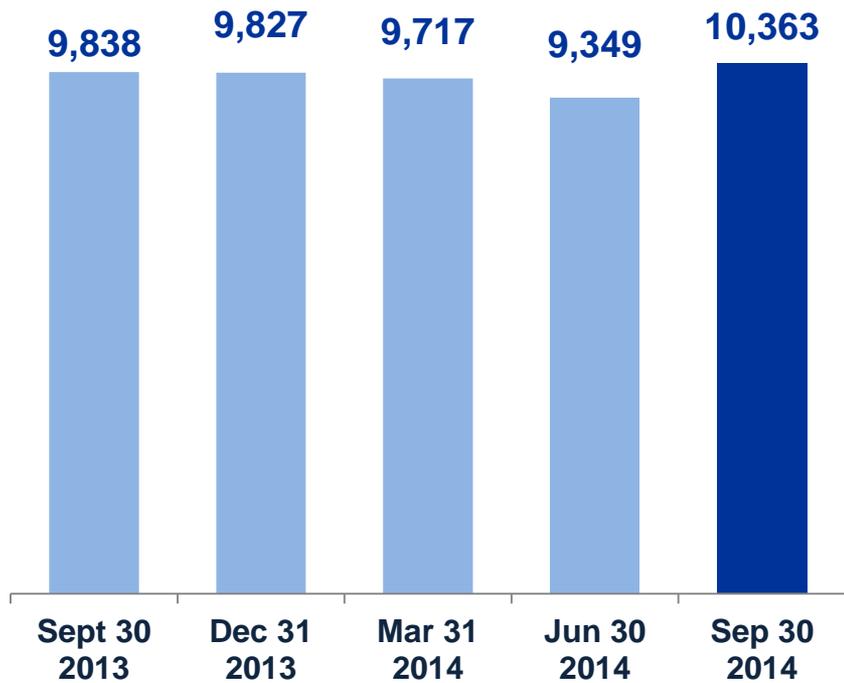


Dividend Policy: 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis

- Dividend Yield is based on average market cap during the period
- Dividend Yield for 2014 – based on average market cap from January – September 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**
- **Introduction of wholesale market**
- **Increased flexibility in retail operations**



Fixed Line



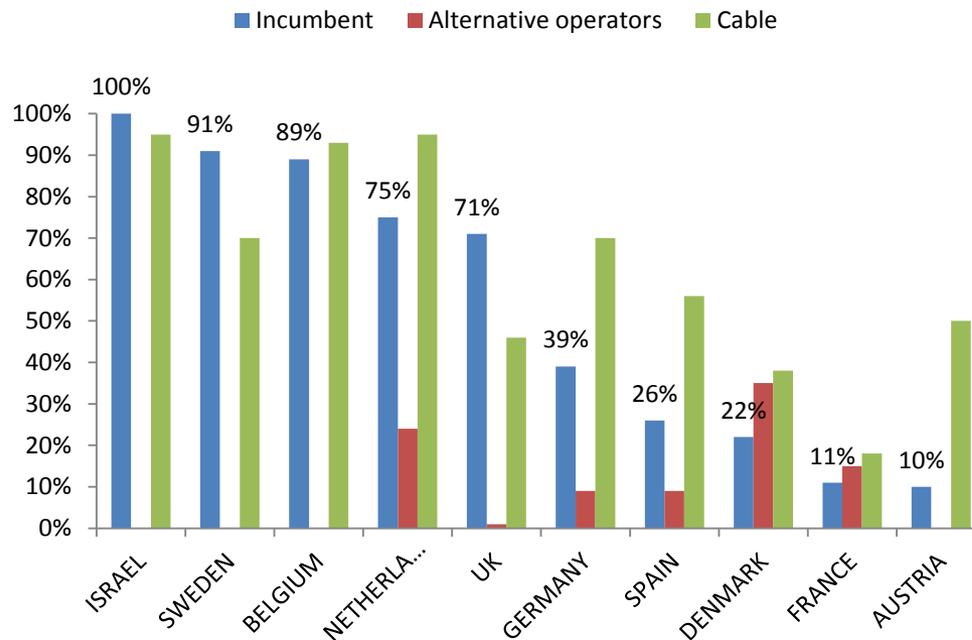
Bezeq is uniquely positioned as the leading provider of the full range of high quality telecom products and services in Israel

Bezeq Fixed-Line

- ✓ **Leading broadband provider in Israel with approximately 65% market share, growing by 5 percentage points in the last two years**
- ✓ **More than 100k broadband customers added in last 12 months, representing a 8.5% 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

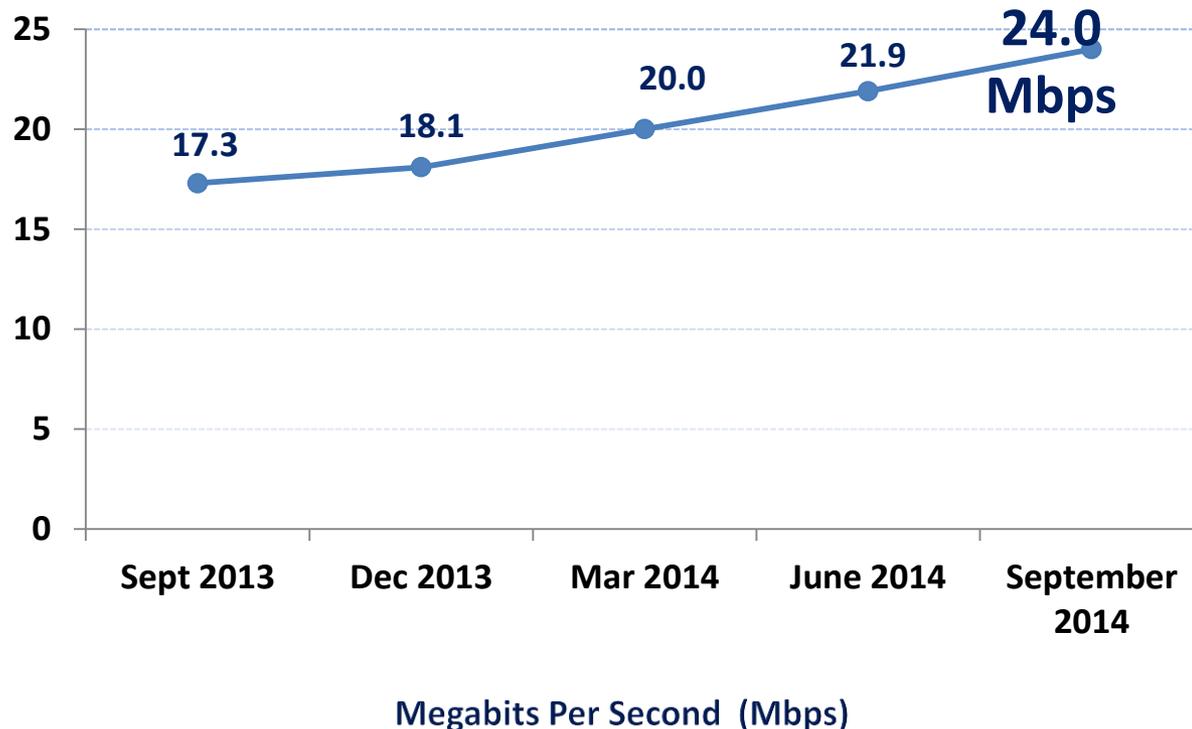
Household Coverage



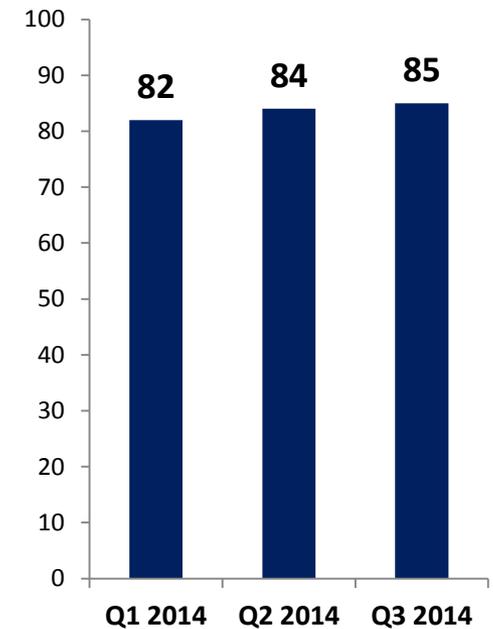
Source: Cullen research, Nov 2014

NGN enables ongoing increases in bandwidth and ARPU growth

39% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)



FTTB deployment launched in 2013



NGN
Next Generation Network

September
2009



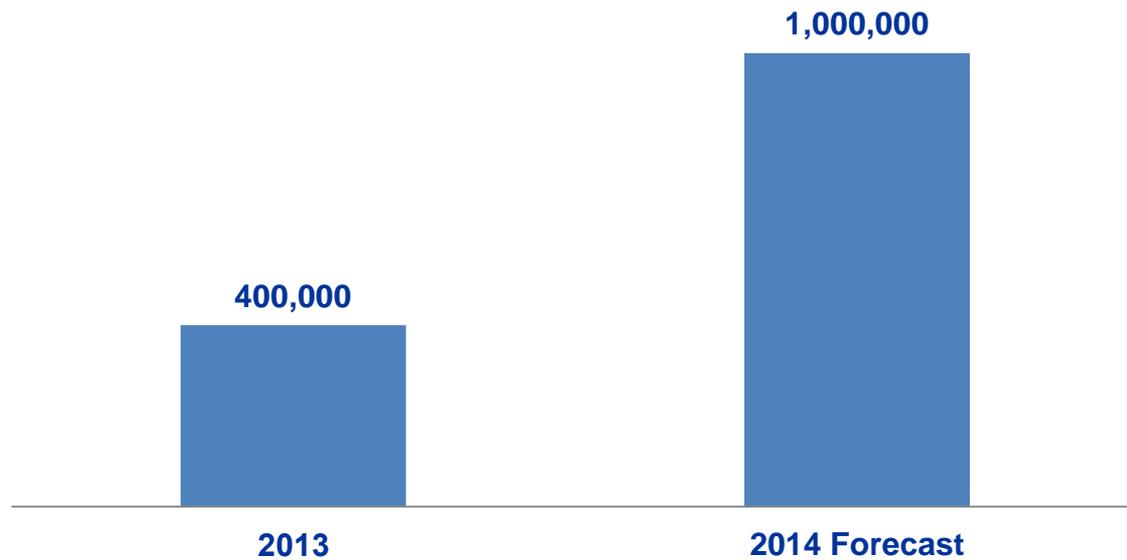
fiber

Fiber-to-the-
Building (FTTB)

2013 to present

Fiber-to-the-Building Rollout

FTTB Homes Passed



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



Pelephone

Cellular

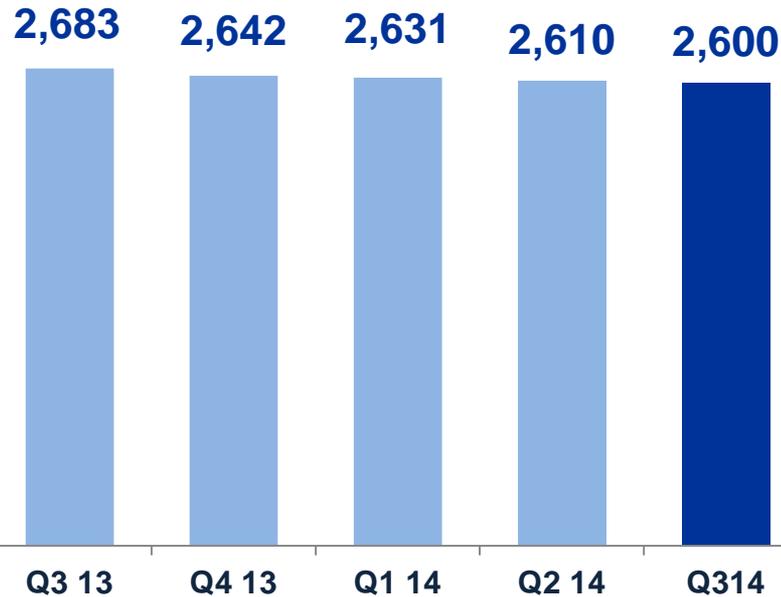


- 2.60 million cellular customers
- Nationwide HSPA network
- 4G (LTE) network in early launch stage with wide deployment expected in 2015
- Strong platform for advanced data services
- Highly competitive market

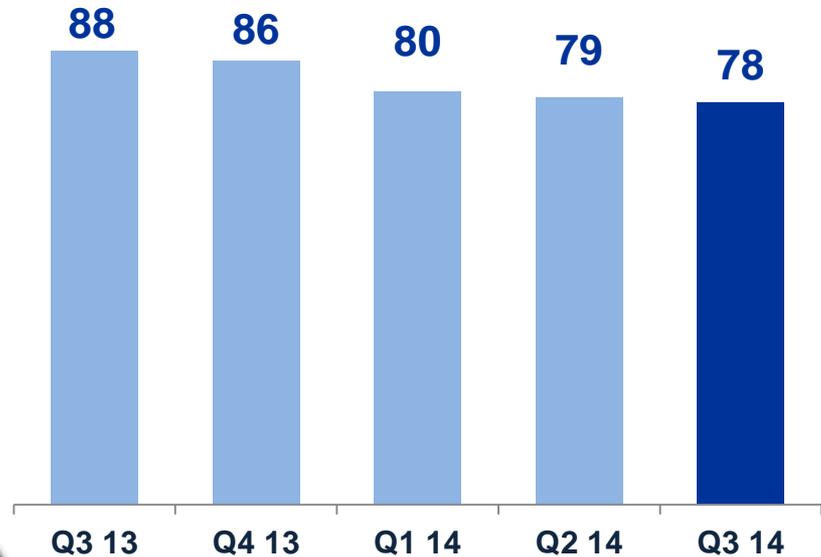


Telephone KPIs

Subscribers (in 000's)



ARPU (NIS)



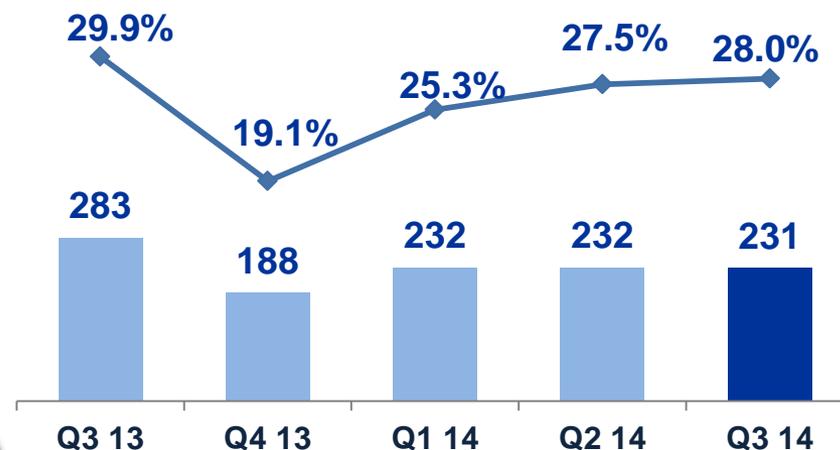
- Cellular subscribers as of September 30, 2014 totaled 2.6 million, decreasing by only 10,000 subscribers.
- ARPU in 3Q 2014 decreased 1.3% sequentially due to tariff erosion.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- Revenue and EBITDA declined 13.0% and 18.4% respectively y-o-y driven by increased competition in the cellular market and the transition of existing customers to lower priced plans.
- Revenue decreased 2.3% sequentially and EBITDA was generally in line sequentially. EBITDA margin in 3Q 2014 was 28.0% compared with 27.5% in 2Q 2014.



ISP / ILD / ICT

Bezeq International

Israel's leading ISP & ICT telecom provider with 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



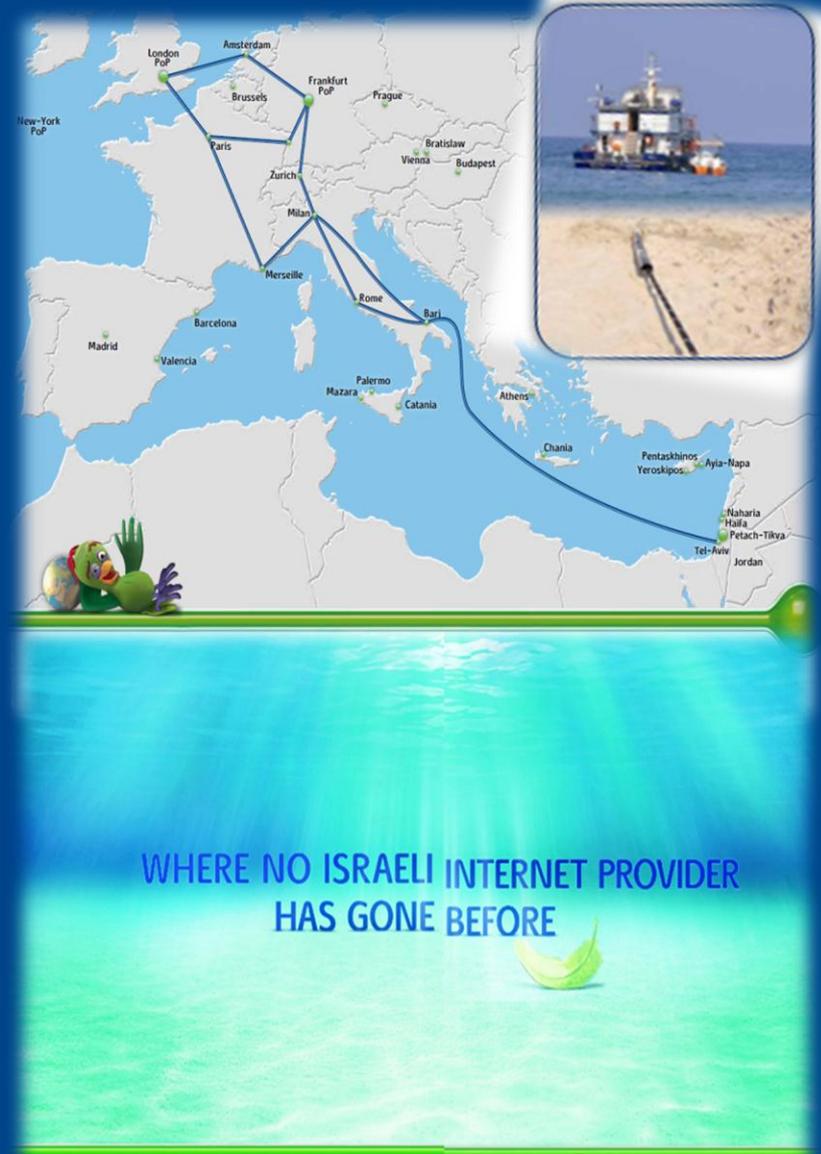
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

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

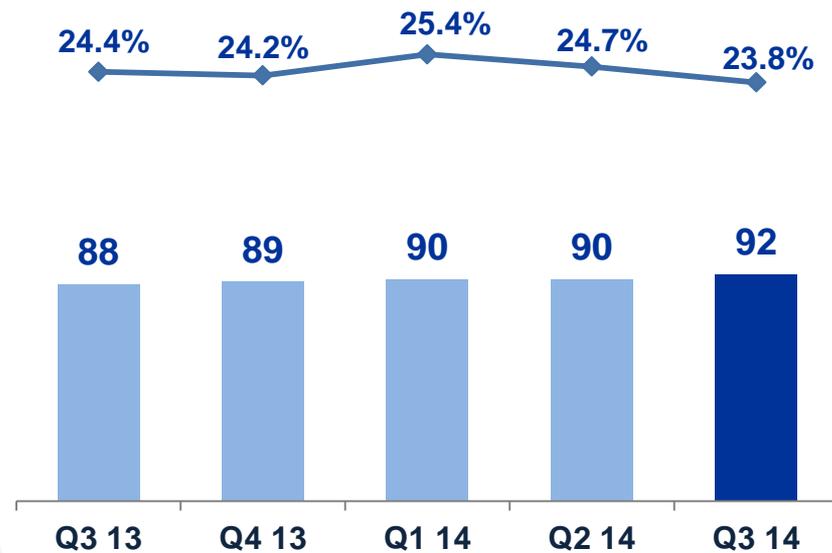


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in 3Q 2014 increased 7% y-o-y to a record NIS 385 million due to increased revenues from business communication and IT solutions as well as from data communications and cloud services.
- EBITDA in 3Q 2014 rose 4.4% y-o-y to NIS 92 million, for an EBITDA margin of 23.8%.



**Multi-Channel
DTH Provider**



Leading brand for content, innovative applications and customer service

- *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

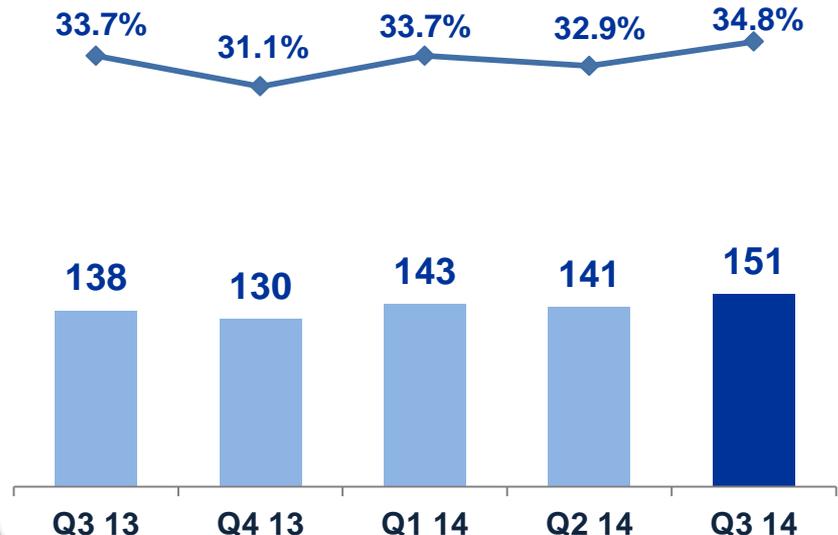
- ✓ Innovative applications based on state-of-the-art technology
- ✓ Average of three set-top boxes per household with significant proportion of HD

Yes – Revenue & EBITDA

Yes Revenue
NIS MM



Yes EBITDA
NIS MM



- Revenue in 3Q 2014 increased 5.4% y-o-y to NIS 432 million versus the year ago, supported by a 5.1% increase in subscribers.
- EBITDA in 3Q 2014 increased 8.8% y-o-y to NIS 151 million, primarily due to subscriber levels rising to a record 623,000 subscribers. EBITDA margin increased to 34.8%.

Market Changes Create New Opportunities for the Bezeq Group

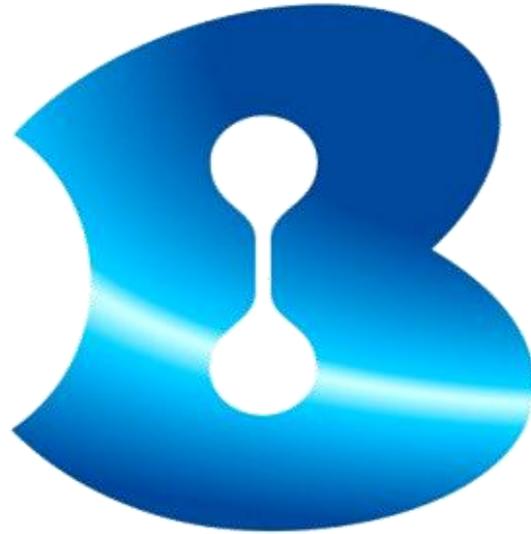


**Removal of
Structural Separation**

**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