



# **BEZEQ Group**

## **Investor Presentation Second Quarter 2011**

**August 2011**

# Forward-Looking Information and Statement

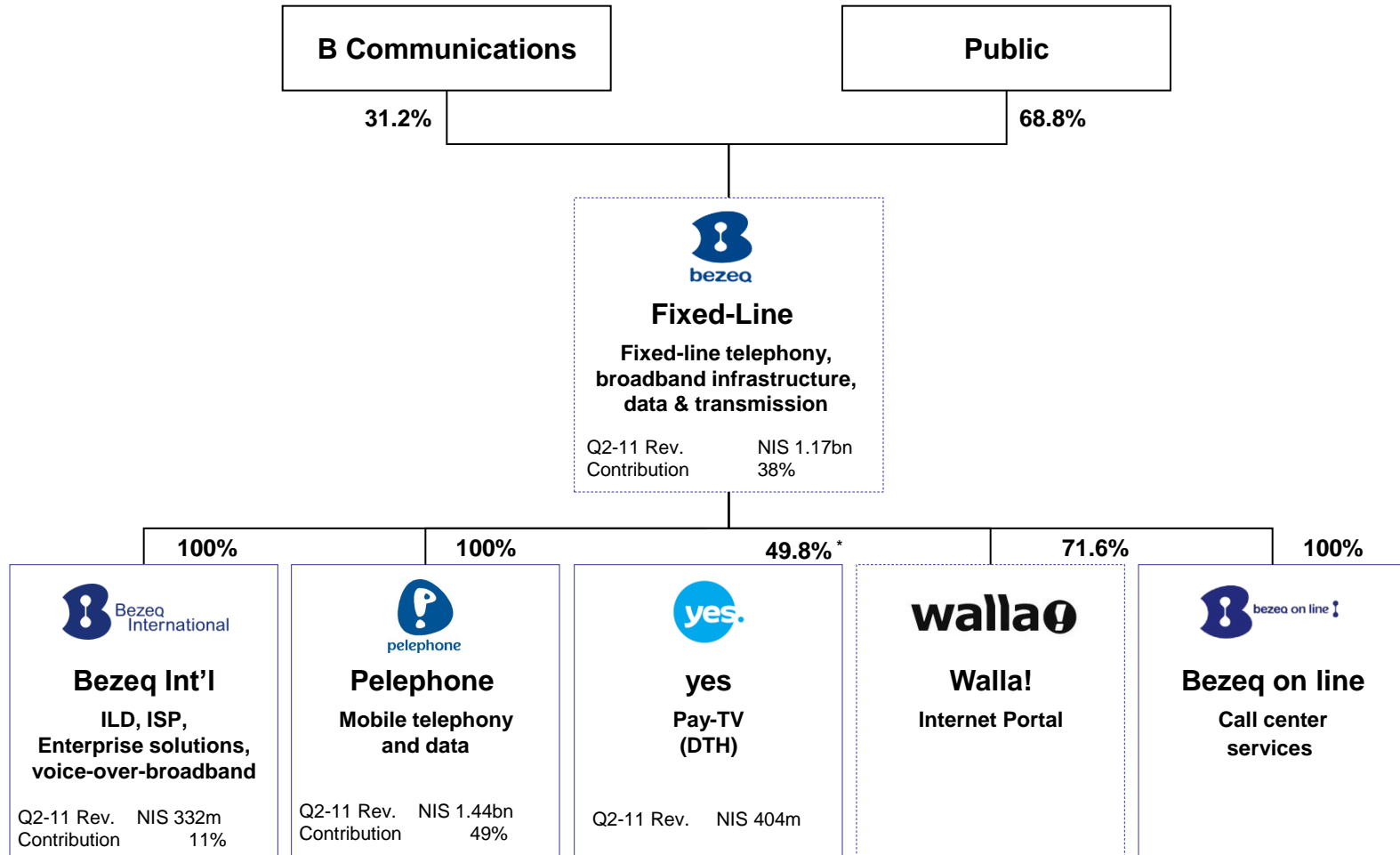


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# Bezeq Group Profile



Listed on TASE

# Bezeq Group Q2 2011 Highlights

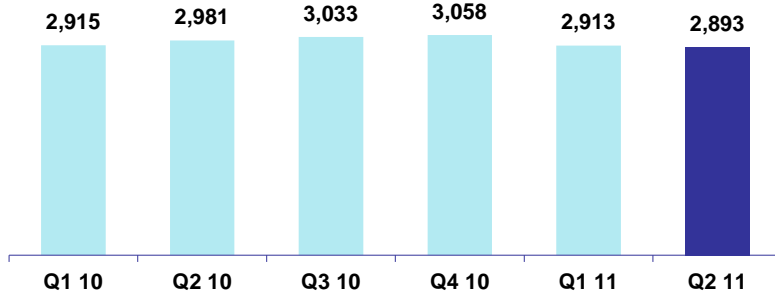


## Revenues & Profitability

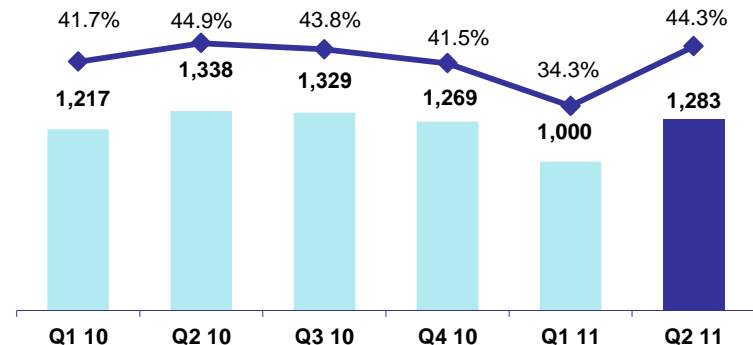
### Revenues decreased 3% YoY due to reduction in MTRs and increased competition

- Consolidated revenues were impacted by reduction of approximately NIS 370 million in Q2 2011 due to decrease in mobile termination rates in Bezeq Fixed-line and Pelephone
- Pelephone equipment sales reached NIS 513 million, up 77.5% YoY vs. NIS 289 million in Q2 2010
- Q2 2010 operating profit, net profit, and EBITDA included a one-time profit of NIS 57 million due to the consolidation of Walla!

### Consolidated Revenues NIS MM



### Consolidated EBITDA NIS MM



# Bezeq Group Q2 2011 Highlights

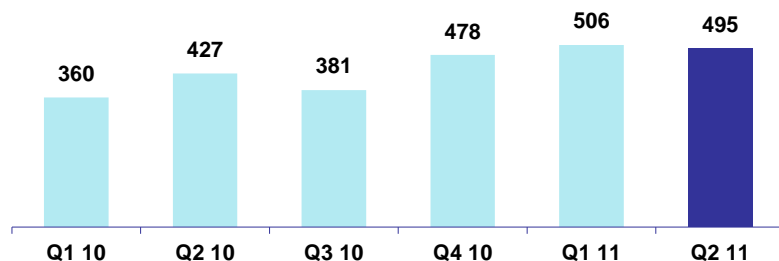


## CapEx & Cash Flows

### Strategic capex investments

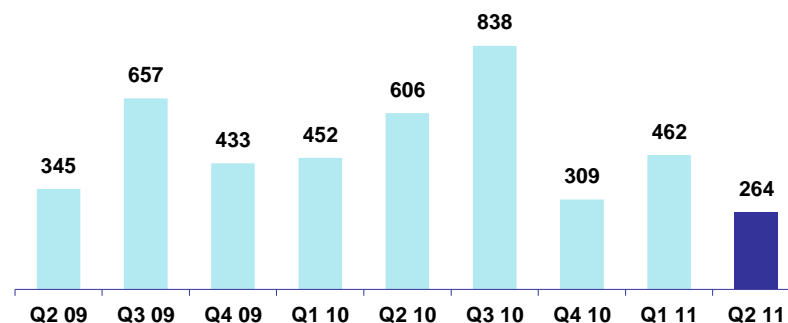
- ⚡ Bezeq Fixed-Line progresses with NGN deployment, generating operational benefits with rollout of higher value subscriber access packages
- ⚡ Pelephone's HSPA network drives increase in data revenues (34.5% of cellular service revenues)
  - ⚡ 56% of Pelephone's subscribers were on the HSPA network as of June 30, 2011
  - ⚡ Increase in competition resulted in increased churn and decreasing ARPU and cash flows
- ⚡ Bezeq International investment in submarine cable proceeding on target

### 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

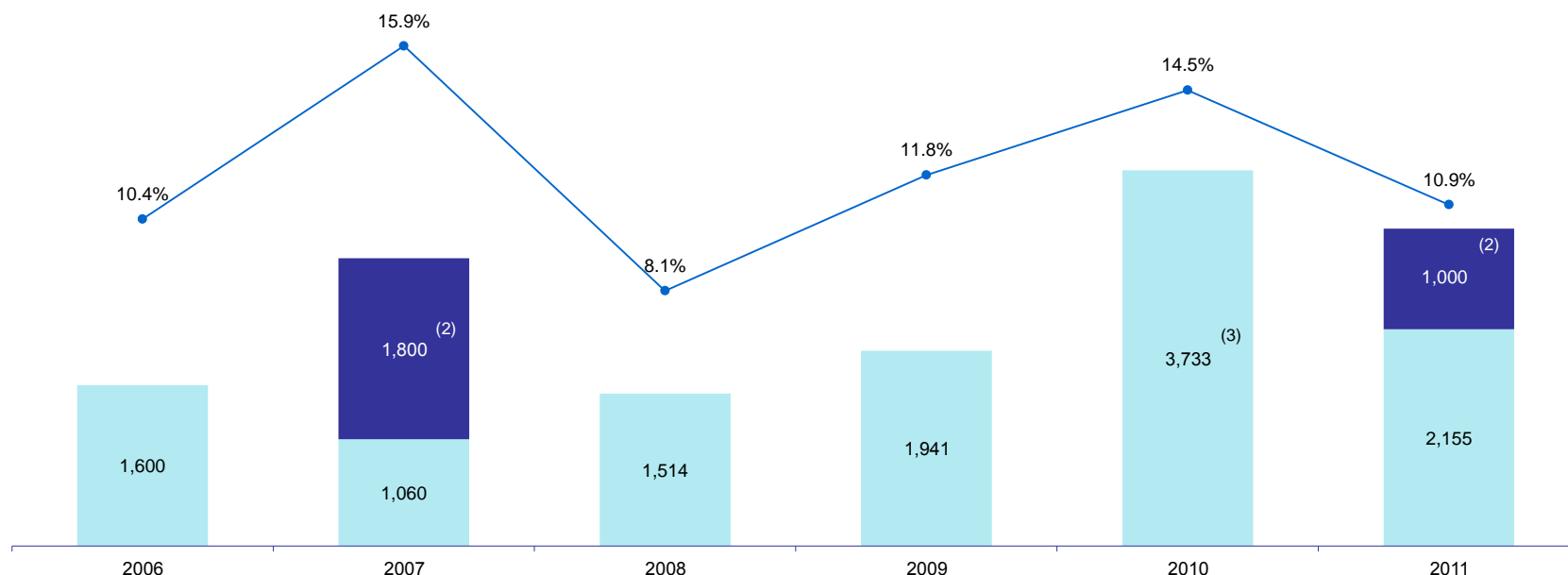
# Bezeq Group Q2 2011 Highlights



## Creating Shareholder Value

### Attractive shareholder remuneration <sup>1</sup>

- Board of Directors recommends NIS 992 million regular cash dividend. In addition, Bezeq will distribute NIS 500 million as a special dividend. The total dividend to be distributed will be NIS 1,492 million, or NIS 0.55 per share.



1. Dividend yield calculated as regular and special dividends paid during the fiscal year, divided by the market capitalization as of December 31 of the previous year

2. Capital reduction

3. Includes one-time gain from yes' deconsolidation of NIS 1.5bn.



# Regulatory Environment



## Fixed-Line

- MoC-appointed Hayek committee submitted interim report recommending fixed-line wholesale regime, roadmap for cancellation of structural separation and cancellation of Bezeq's tariff supervision. The final report is expected during 2011.
- Law for reduction of exit fees approved in first reading

## Mobile

- Regulator promotes increased competition through:
  - MTRs cut by approximately 70% as of Jan 2011
  - 4 MVNO licensees have signed agreements with existing operators (3 with Pelephone)
  - Mirs received the 4<sup>th</sup> cellular license; expected to launch services in 2012. Golan Telecom submits guarantees to MOC for fifth cellular license.

## ISP, International long distance

- Law for reduction of exit fees approved in first reading

## Pay-TV

- Gov't approved expansion of DTT service scope
- Law for reduction of exit fees approved in first reading



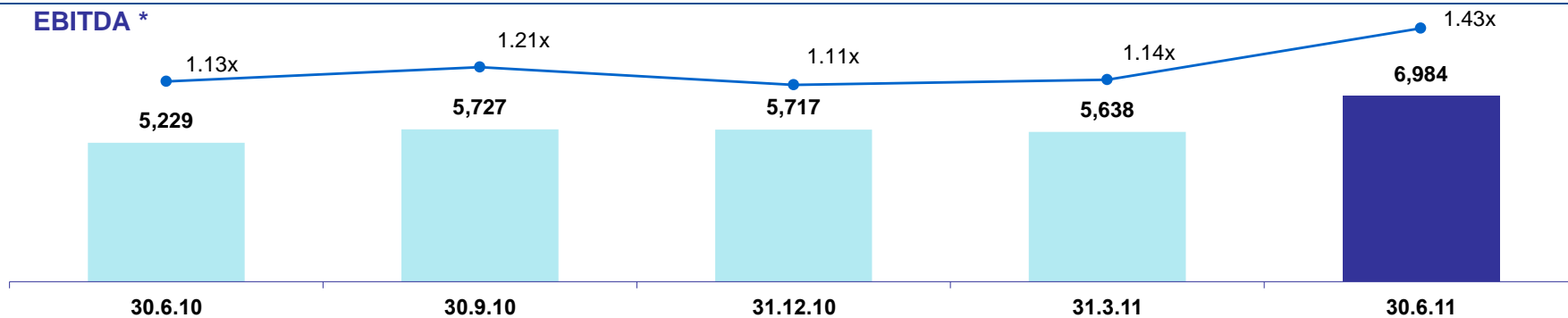
# Group Financial Profile

In June 2011, Bezeq raised NIS 2.7 billion in a public debt offering. This amount was not included in the June 30, 2011 balance sheet since the proceeds were received after the balance sheet date.

## Group Gross Debt

NIS MM  
EBITDA \*

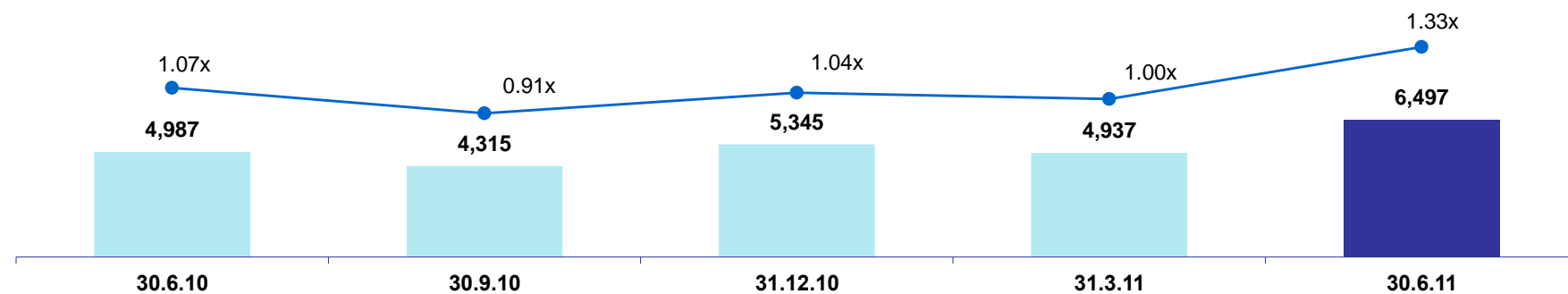
Gross Debt/EBITDA\*



## Group Net Debt

NIS MM

Net Debt / EBITDA\*



\* EBITDA in this calculation refers to the trailing twelve months





# Bezeq Fixed-Line



# Bezeq Fixed-Line Q2 2011 Highlights

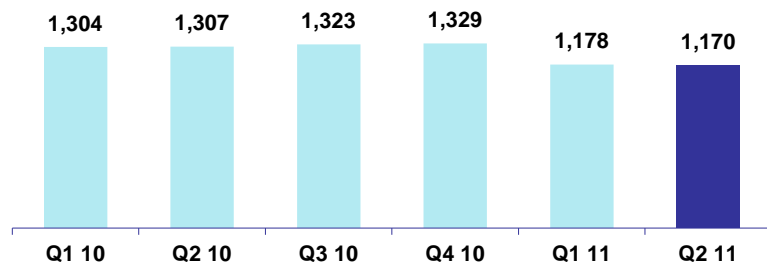


## Revenues & Profitability

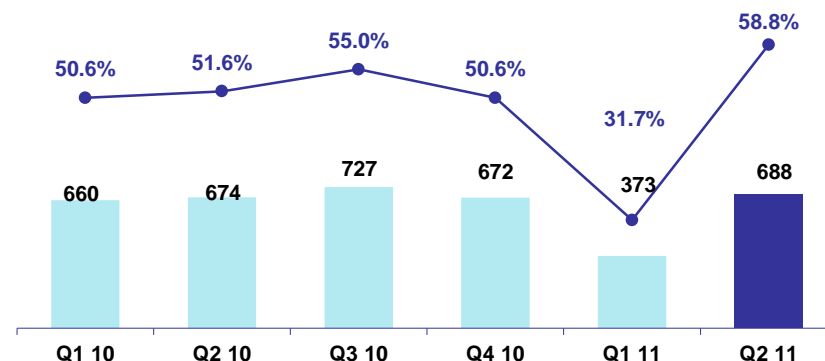
### Revenue growth after exclusion of mobile termination fees for the third consecutive quarter

- Reduction in mobile termination fees negatively impacted Q2 2011 revenues by NIS 152 million\*. After exclusion of such reduction, revenues grew by 1% vs. Q2 2010
- EBITDA of NIS 688 million, up 2.1% YoY, for an EBITDA margin of 58.8%

### Fixed-Line Revenues NIS MM



### Fixed-Line EBITDA NIS MM



\* Since there is a corresponding reduction in expenses, there was no effect on EBITDA

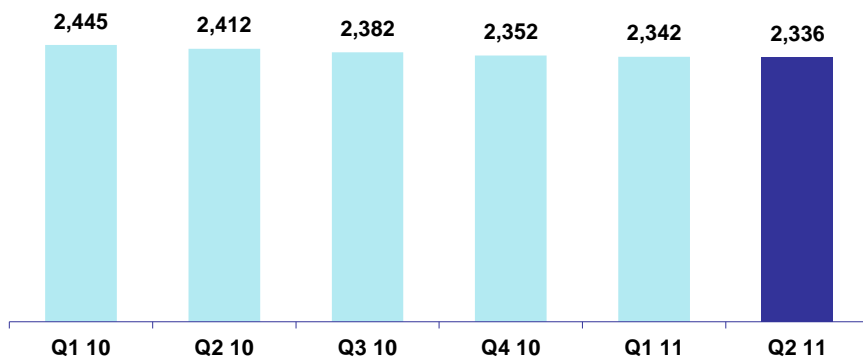
# Bezeq Fixed-Line Q2 2011 Highlights



## Key Performance Indicators

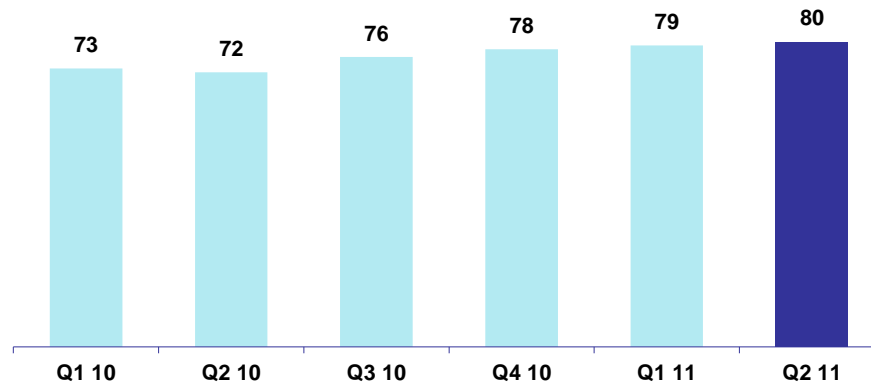
- NGN generates operational benefits with rollout of higher value subscriber packages
- Broadband Internet ARPU increased 11.1% YoY to NIS 80, led by bandwidth upgrades
- Average broadband Internet bandwidth increased 56% YoY to 5.3 Mbps
- Loss of access lines slows to 6k lines in Q2 2011 vs. 33k in Q2 2010

Access Lines <sup>(1)</sup> '000



1. Excludes public coin operated payphones.

Broadband Internet ARPU (NIS/Month)



# Bezeq Fixed-Line Q2 2011 Highlights

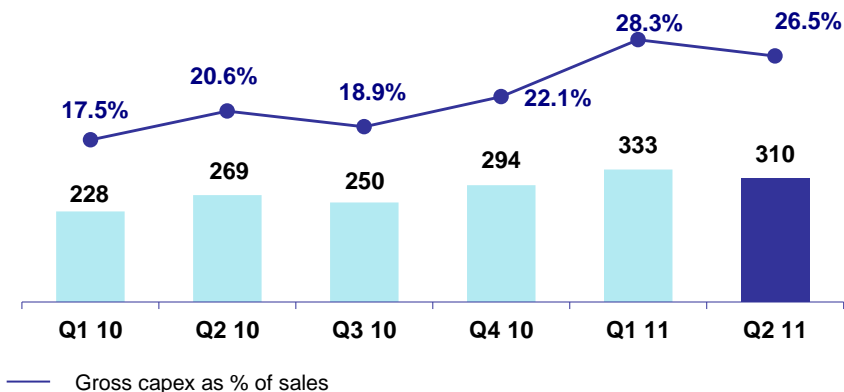


## CapEx & Cash Flows

Capex increased 15.2% YoY to NIS 310 million, as capex-to-sales expanded to 26.5% versus 20.6% in Q2 2010

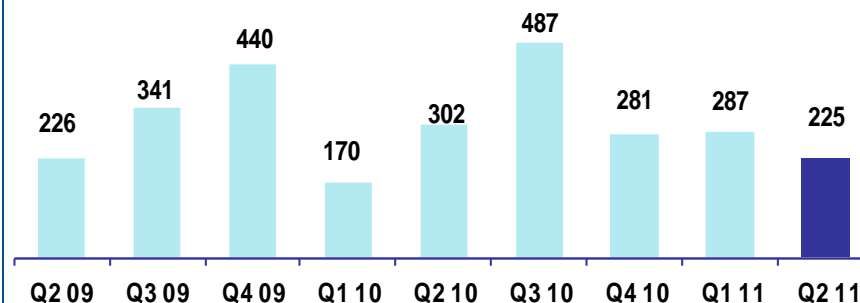
- Operating cash flow was NIS 496 million, down 5.2% YoY due to working capital timing differences

### Fixed-Line Gross Capex NIS MM



Note: capital expenditures (CapEx) cited on accounting basis

### Fixed-Line Free Cash Flow <sup>(1)</sup> NIS MM



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



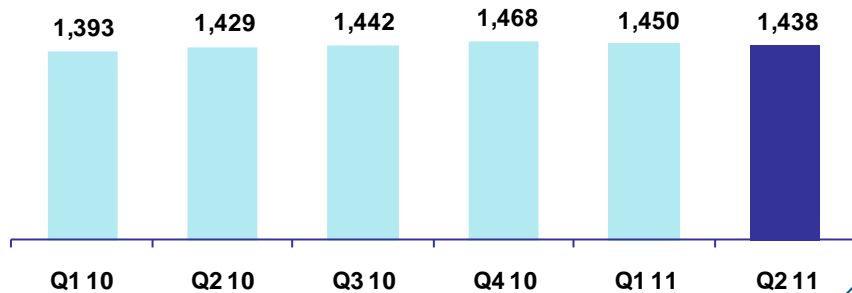
# Pelephone Q2 2011 Highlights

## Revenues & Profitability

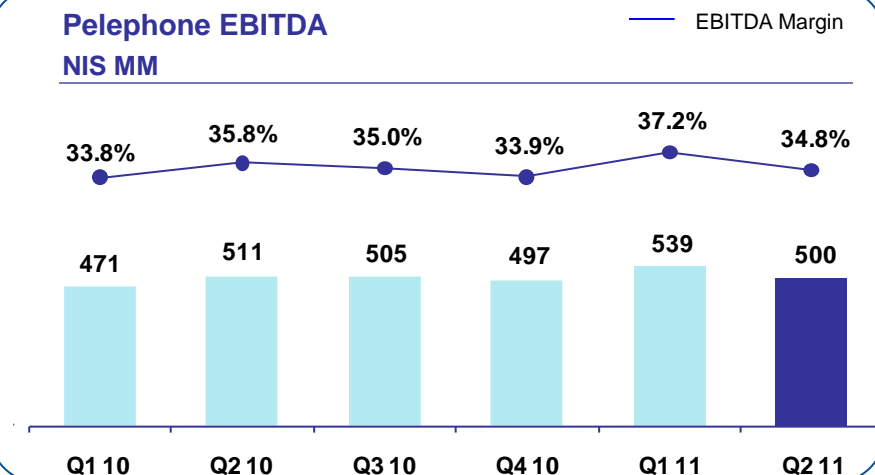
### Significant increase in revenues from equipment sales offsets reduction in service revenues

- ⚡ Total revenues grew 0.6% YoY to NIS 1.44 billion despite approximately NIS 218 million negative impact in Q2 2011 due to reduction in mobile termination rates
- ⚡ Service revenues decreased 18.9% YoY, due to the reduction in mobile termination rates
- ⚡ Equipment revenues increased 77.5% YoY to NIS 513 million vs. 289 million in Q2 2010
- ⚡ EBITDA decreased 2.2% YoY to NIS 500 million, for a 34.8% EBITDA margin vs. 35.8% in Q2 2010
- ⚡ Net profit grew 4.5% YoY to NIS 279 million vs. NIS 267 million in Q2 2010

### Pelephone Revenues NIS MM



### Pelephone EBITDA NIS MM



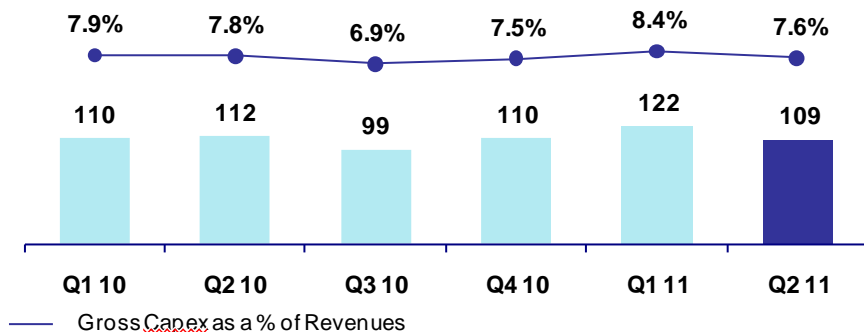


## CapEx & Cash Flows

**Funding of equipment sales by installment payments led to significant decrease in operating and free cash flows**

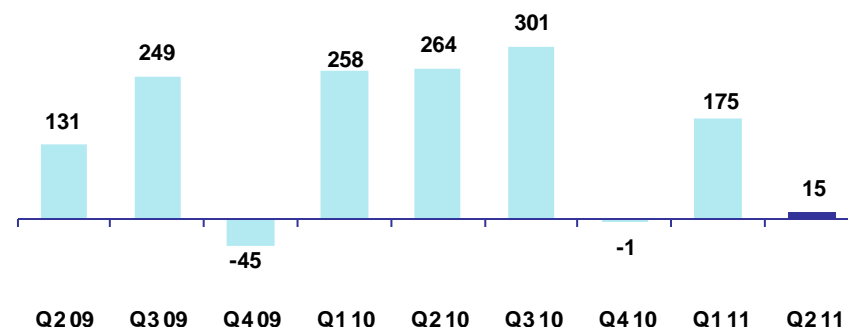
- Operating cash flow reached NIS 101 million, down 73.3% YoY
- Free cash flow (FCF) reached NIS 15 million, down 94.3% YoY

### Pelephone Gross Capex NIS MM



Note: capital expenditures (CapEx) cited on accounting basis

### Pelephone Free Cash Flow <sup>(1)</sup> NIS MM



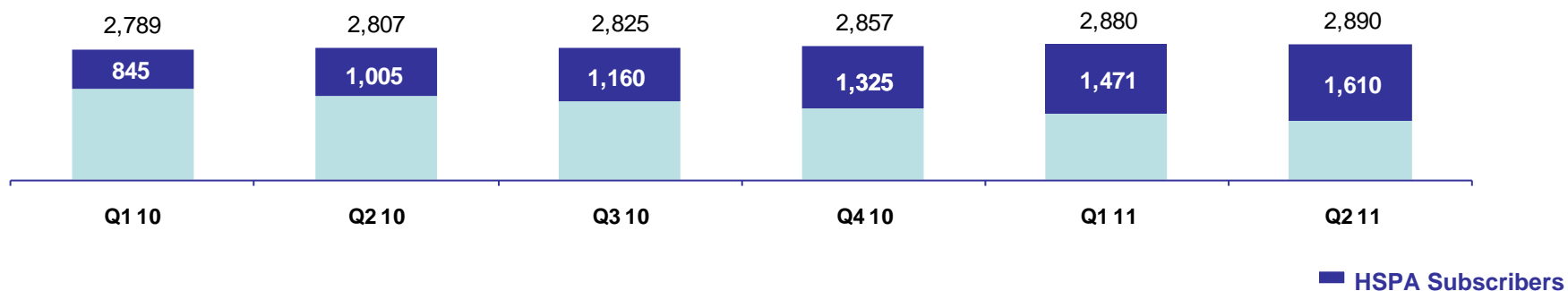
1. Free cash flow defined as Cash Flow from Operations– Net Capex

## Key Performance Indicators

### Record data revenues; Increase in competition impacts churn and ARPU

- 56% of Pelephone's subscribers were on the HSPA network as of June 30, 2011
- Revenues from data, VAS and content reached an Israeli industry high 34.5% of cellular service revenues in Q2 2011
- ARPU decreased to NIS 107 in Q2 2011 vs. NIS 111 in Q2 2010 after adjusting for reduced MTRs
- MOU increased to 365 minutes in Q2 2011, up 4.9% YoY
- Churn rate increased to 4.9% vs. 3.9% in Q2 2010 due to increased competition

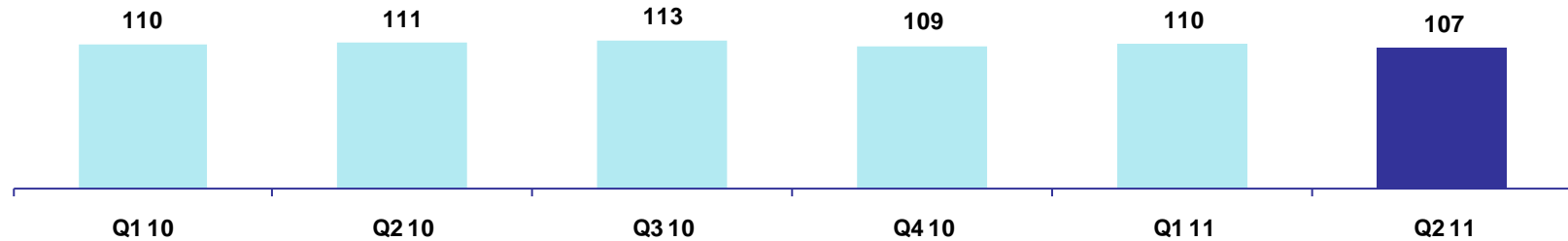
Subscribers '000





## Significant growth in usage of data, VAS, and content services

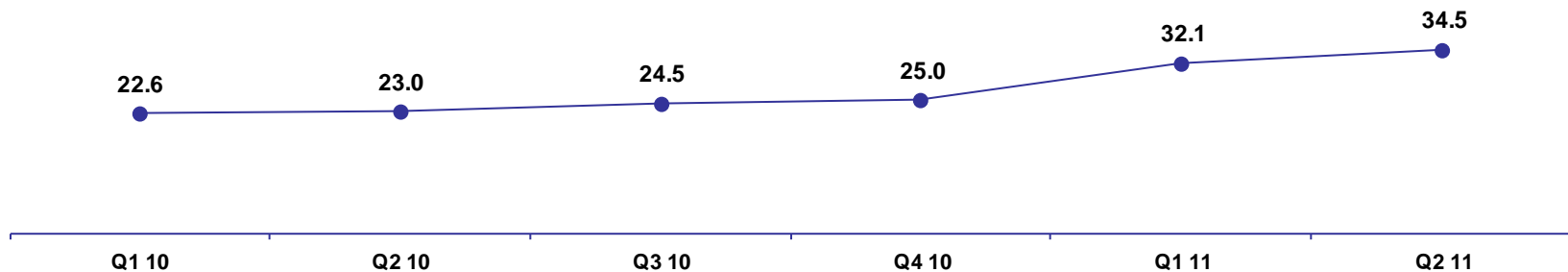
**ARPU <sup>(1)</sup> NIS/Month**



(1) Retroactively adjusted based on reduced mobile termination rates effective Jan 1, 2011

**Data, VAS, and content revenue as a percentage of cellular service revenues**

%



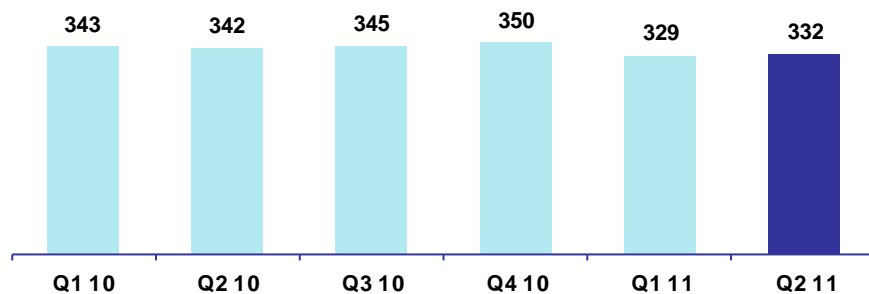


## Revenues & Profitability

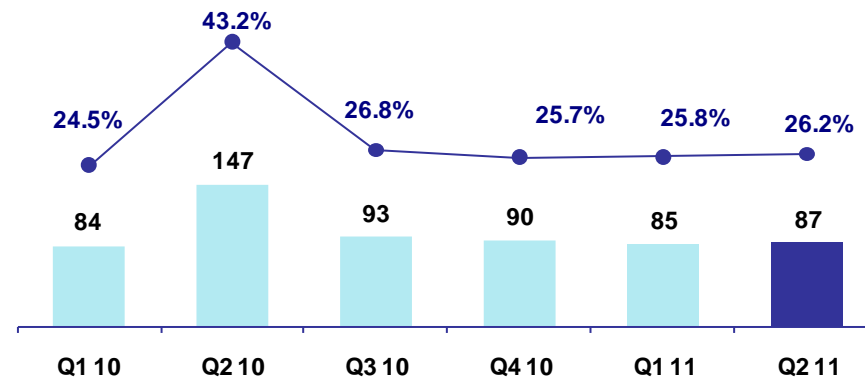
Revenues decreased 2.8% driven by reduction in ILD and hubbing activities partially offset by increases in ISP and ICT revenues

- EBITDA reached NIS 87 million, down 41.0% YoY, for an EBITDA margin of 26.1% due to a one- time profit of NIS 57 million recorded in Q2 2010 for the consolidation of Walla!

Bezeq International Revenues  
NIS MM



Bezeq International EBITDA  
NIS MM

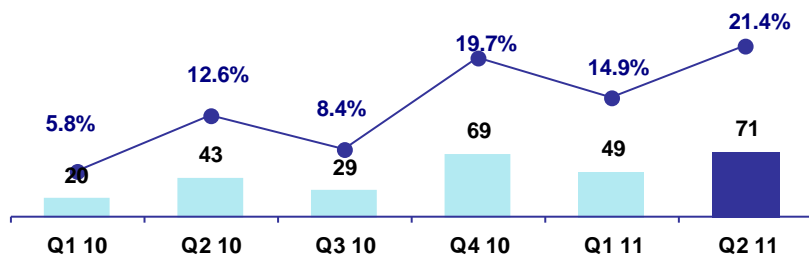


## CapEx & Cash Flows

**Capex increased 65.1% YoY to NIS 71million, as capex-to-sales expands to 21.4% versus 12.6% in Q2 2010, primarily due to investment in submarine cable**

- Operating cash flow reached NIS 68 million, up 3.5% YoY, due to working capital timing differences
- Free cash flow (FCF) of NIS 21 million v. NIS 33 million in Q2 2010, due to increased capital expenditures relating to submarine cable

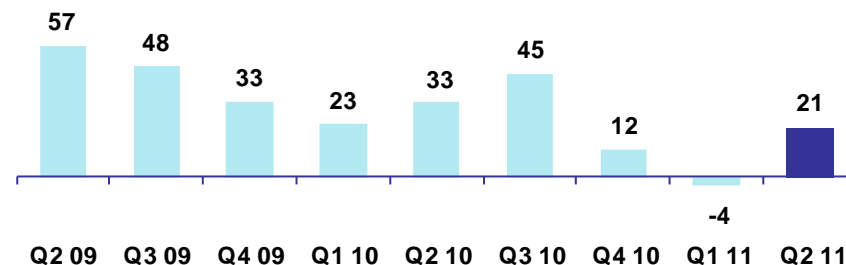
**Bezeq International Gross Capex**  
NIS MM



Note: capital expenditures (CapEx) cited on accounting basis

— Gross capex as % of sales

**Bezeq International Free Cash Flow <sup>(1)</sup>**  
NIS MM



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

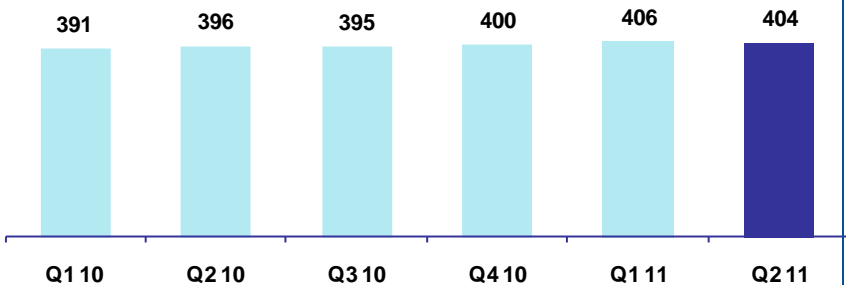


## Revenues & Profitability

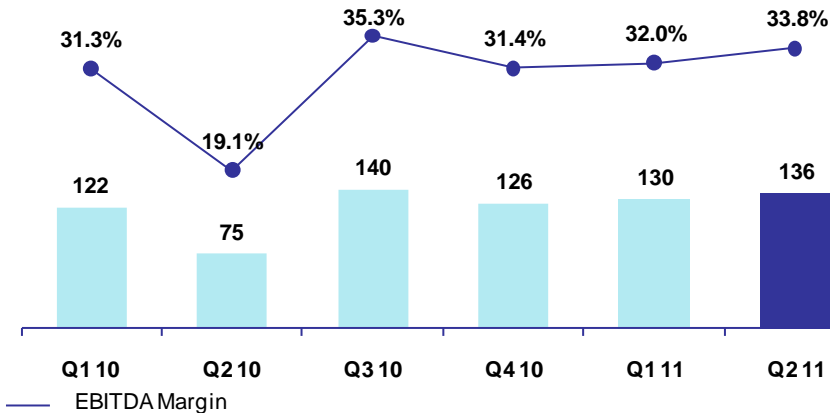
### Solid revenue growth despite increased market competition

- Revenues reached NIS 404 million, up 2.0% YoY, driven mainly by growth of advanced pay-TV services
- Total subscribers increased 1.4% YoY to approximately 581,000
- EBITDA reached NIS 136 million, up 80.8% YoY, for an EBITDA margin of 33.8% vs. 19.1% in Q2 2010 mainly due to a provision for retroactive royalties recorded in Q2 2010

yes Revenues  
NIS MM



yes EBITDA  
NIS MM

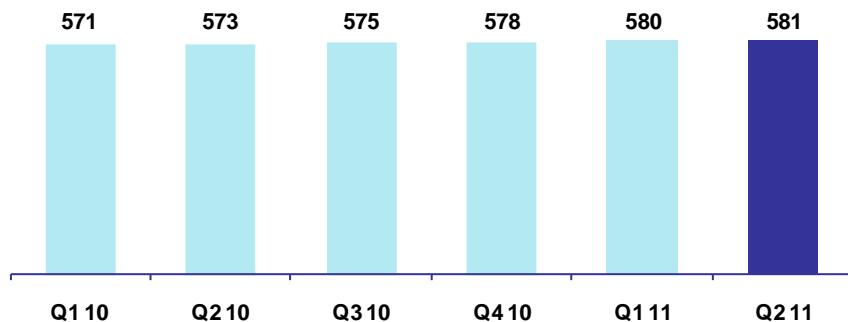


## Value Added Services

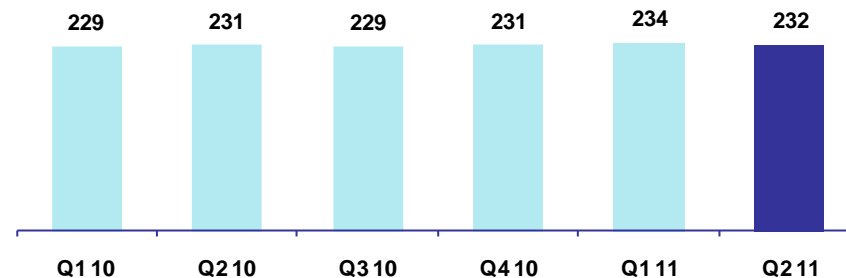
### Value added services contribute to ARPU improvement

- ARPU grew 0.4% YoY to NIS 232 as yes increased sales of VAS such as yesMax, PVR service, yesMaxHD, and IP-based VOD

### yes Subscribers '000, end of period



### yes ARPU NIS/Month, average per quarter

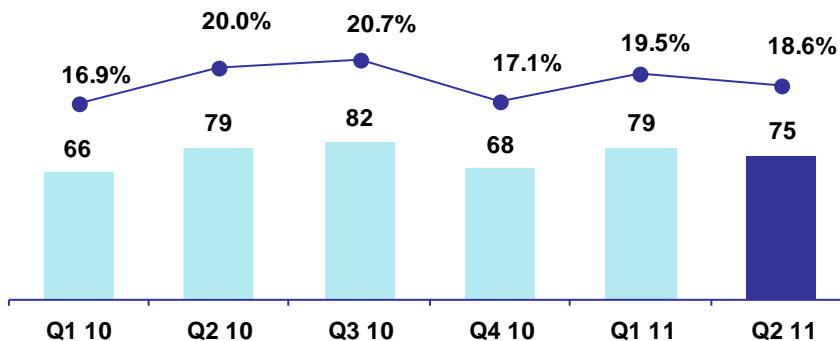


## CapEx & Cash Flows

### Free cash flow expansion

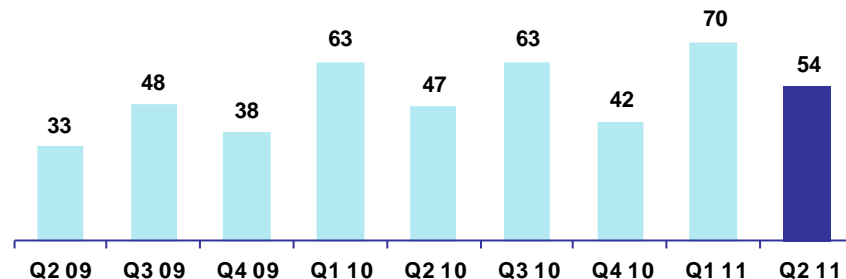
- Operating cash flow increased to NIS 119 million, up 8.4% YoY
- FCF increased to NIS 54 million, up 17.0% YoY

### yes Gross Capex NIS MM



Note: capital expenditures (CapEx) cited on accounting basis

### yes Free Cash Flow <sup>(1)</sup> NIS MM



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



**For additional information,  
please visit our website:**

**[www.bezeq.co.il](http://www.bezeq.co.il)**

**Thank you**

