



BEZEQ
(TASE: BEZQ)

Third Quarter 2012
Investor Presentation

Forward-Looking Information and Statement

This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunication 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 10.5 billion
- Most comprehensive range of offerings
 - 2.30 million fixed customer lines
 - 2.84 million cellular customer lines
 - 1.15 million broadband lines
 - 581,000 Pay-TV customers
- Highly dynamic market with one of the highest household broadband and mobile penetration rates
- NIS 3.07 billion in dividends paid to shareholders in 2012



The Bezeq Advantage



Strong market positions in all telecom sectors



Advanced nationwide infrastructure



Sector leading dividend policy



Strong, stable and experienced management team

BEZEQ GROUP

Wide diversification of advanced telecom services



**Fixed
Line**



Cellular



**Bezeq
International**

ISP, ILD, ICT



Pay TV

walla

Internet Portal



Call Center

Investments in Advanced Infrastructure

Fixed Line



- Most advanced communications network in Israel
- FTTC, all IP, infrastructure for consumer and business customers
- Over 95% 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



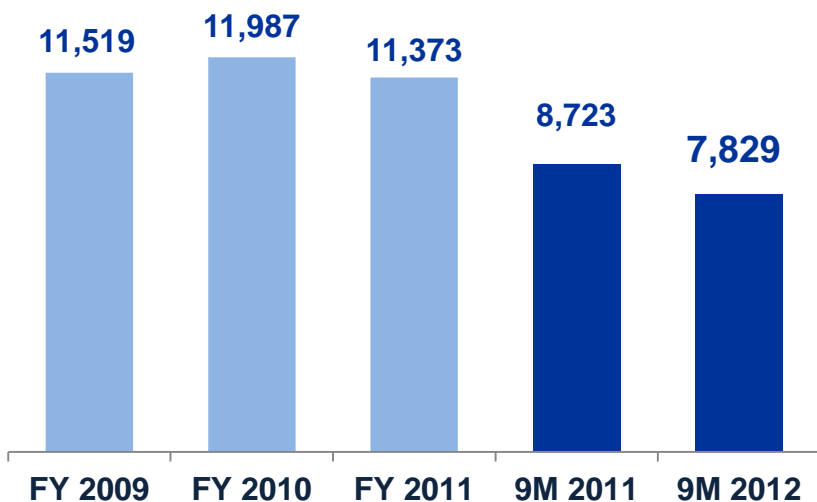
- New high-speed submarine cable system deployed between Israel and Europe
- Increasing bandwidth at affordable rates



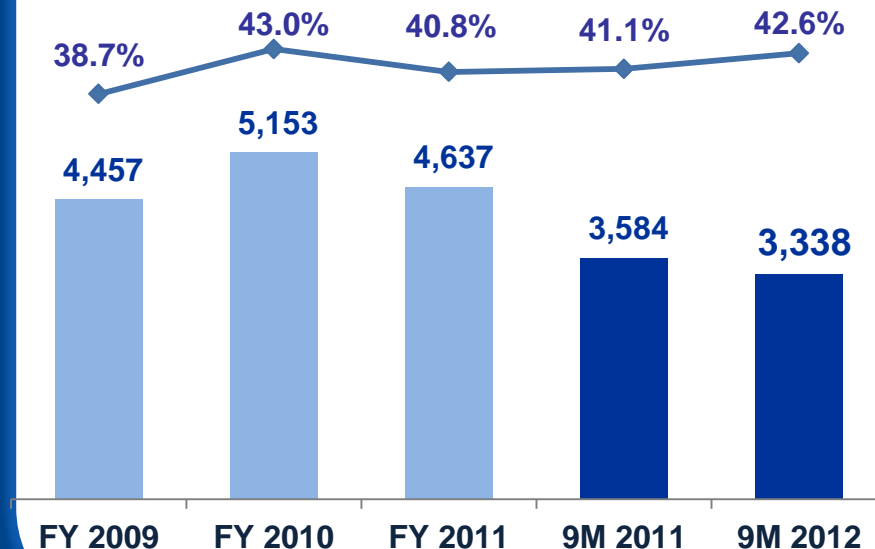
Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM



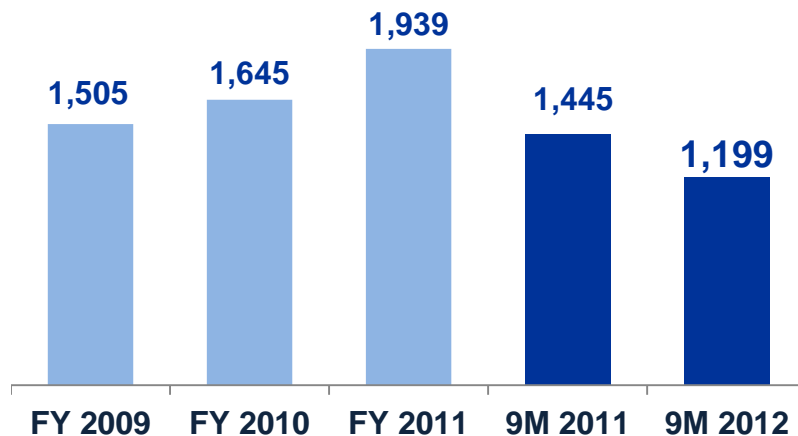
Consolidated EBITDA
NIS MM



- Consolidated revenue in Q3 2012 decreased 14.5% year-over-year mainly due to a reduction in Telephone revenues from cellular equipment and services.
- EBITDA in Q3 2012 decreased 21.1% year-over-year primarily due to lower profitability at Telephone related to an increasingly competitive pricing environment as well as lower capital gains from real estate and copper sales at Bezeq Fixed-line

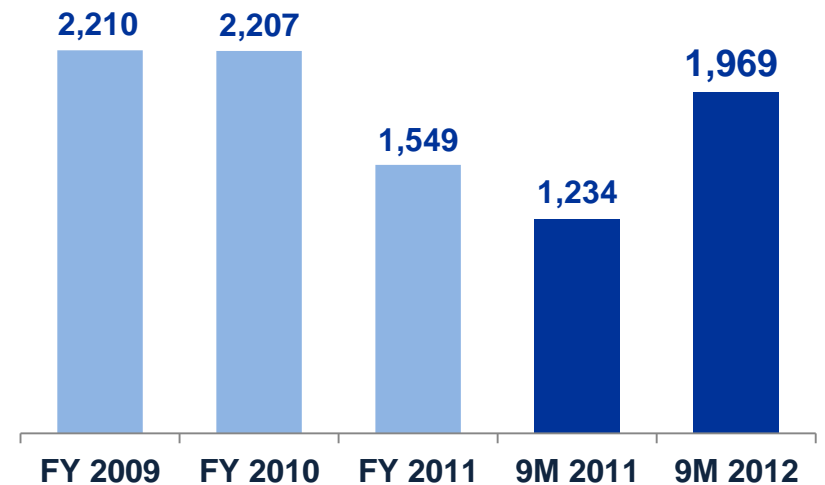
Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx
NIS MM



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

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

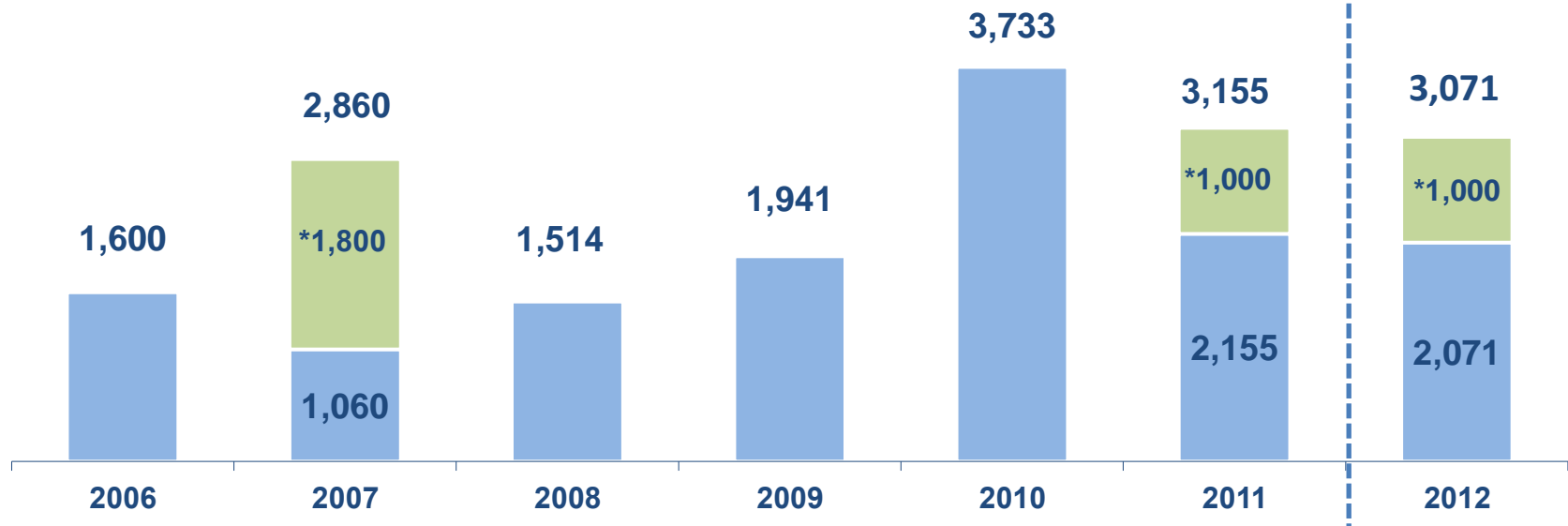


1. Free cash flow defined as Cash Flow from Operations– Net Capex
2. Excluding yes

- Capex in Q3 2012 was positively impacted by the progress made in the NGN project and completion of Bezeq International's submarine cable deployment
- Free cash flow in Q3 2012 increased 48.4% year-over-year due to an increase in cash flow from operating activities as well as the completion of major infrastructure projects initiated in prior years

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)

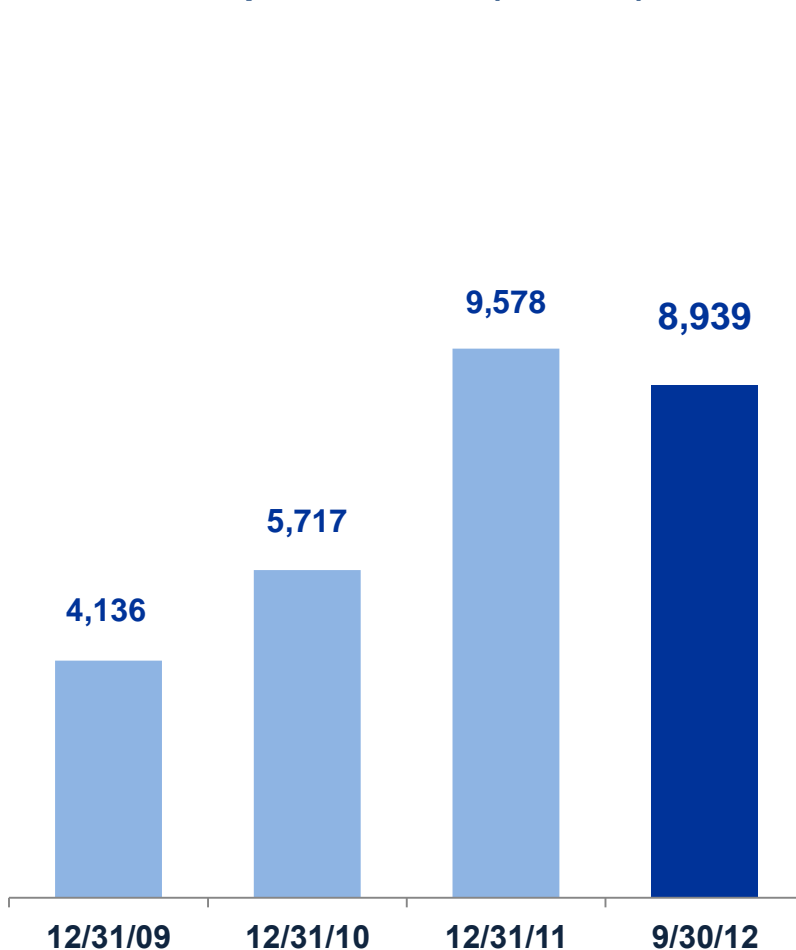


* Special dividend

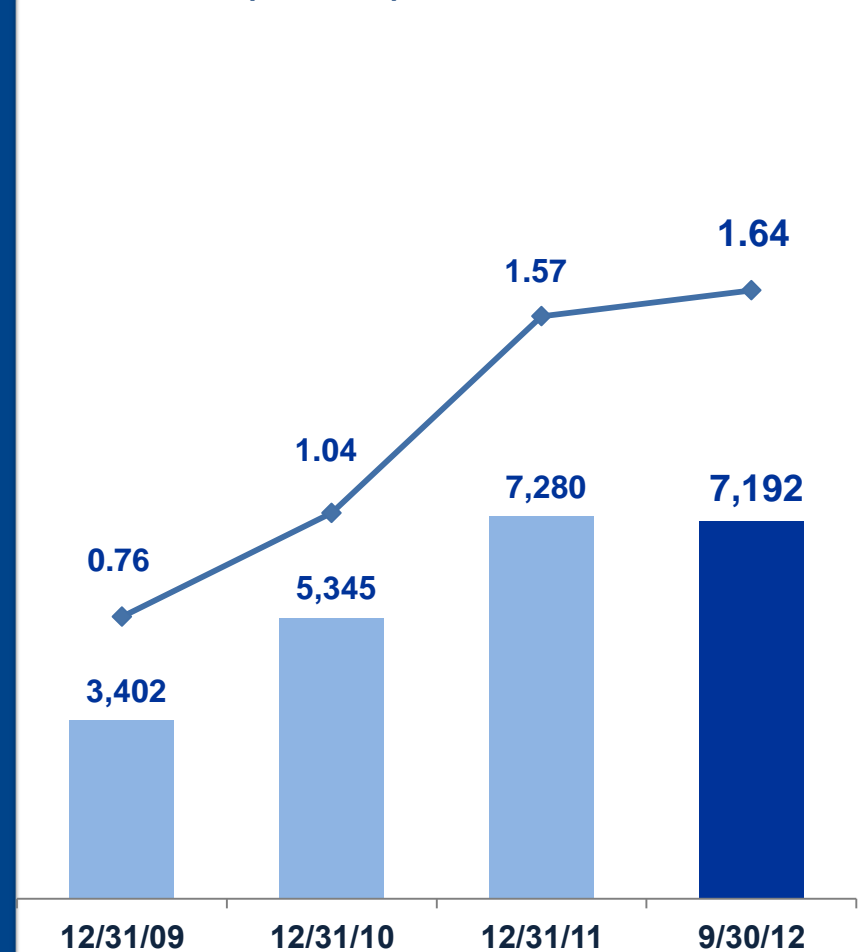
- **Regular Dividends:** 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis
- **Special Dividends:** Six semi-annual NIS 500 million payments running from 2011 to 2013, as part of the Company's capital reduction plan. The fourth payment was made together with the regular dividend on October 10, 2012

Bezeq Group – Debt

Group Gross Debt (NIS MM)



Net Debt (NIS MM) — Net Debt / EBITDA



Regulatory Opportunities & Challenges



- ! **Cancellation of structural separation**
- ! **Development of wholesale market**
- ! **Cancellation of tariff supervision**



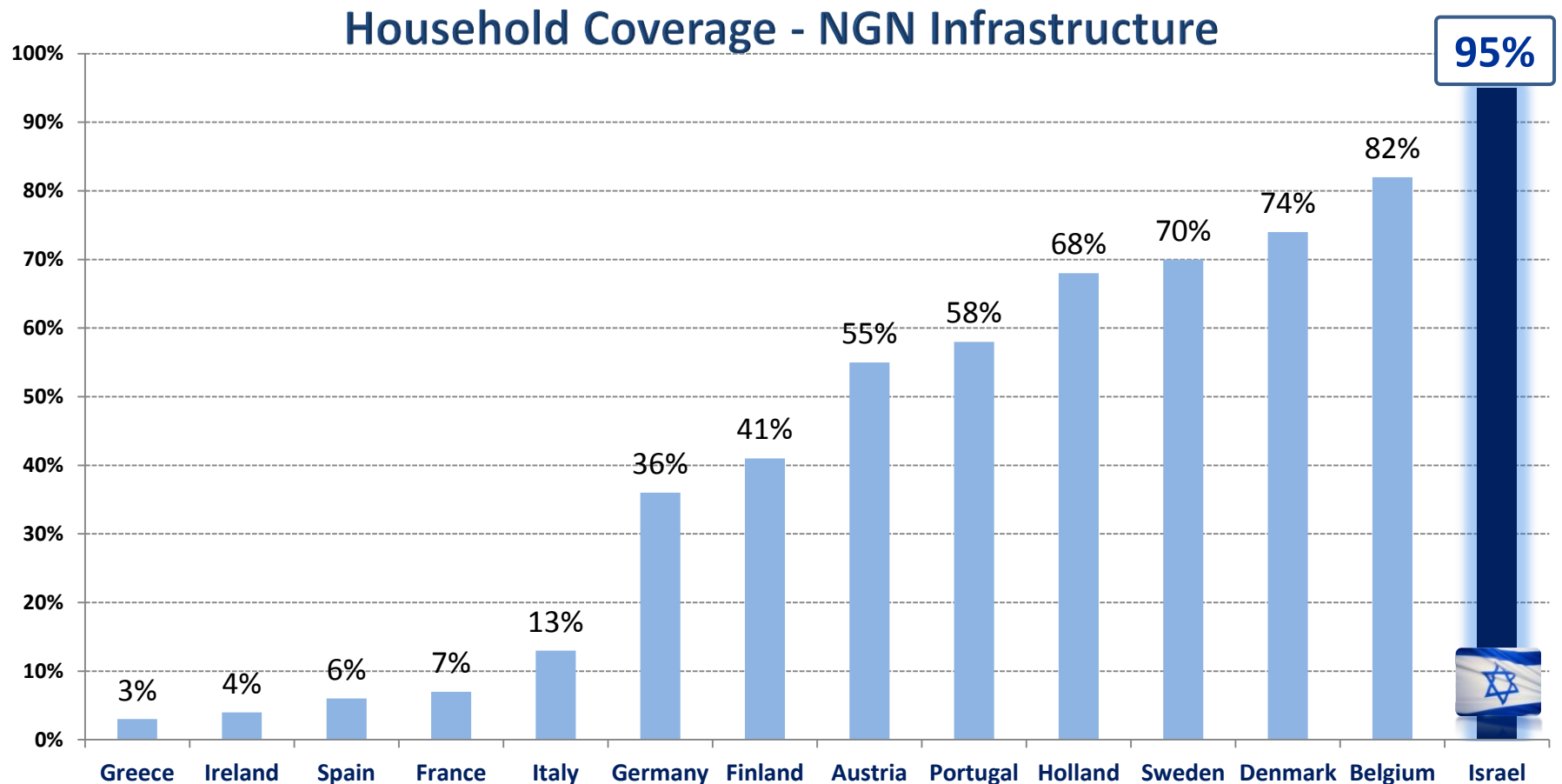
Bezeq Fixed Line



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

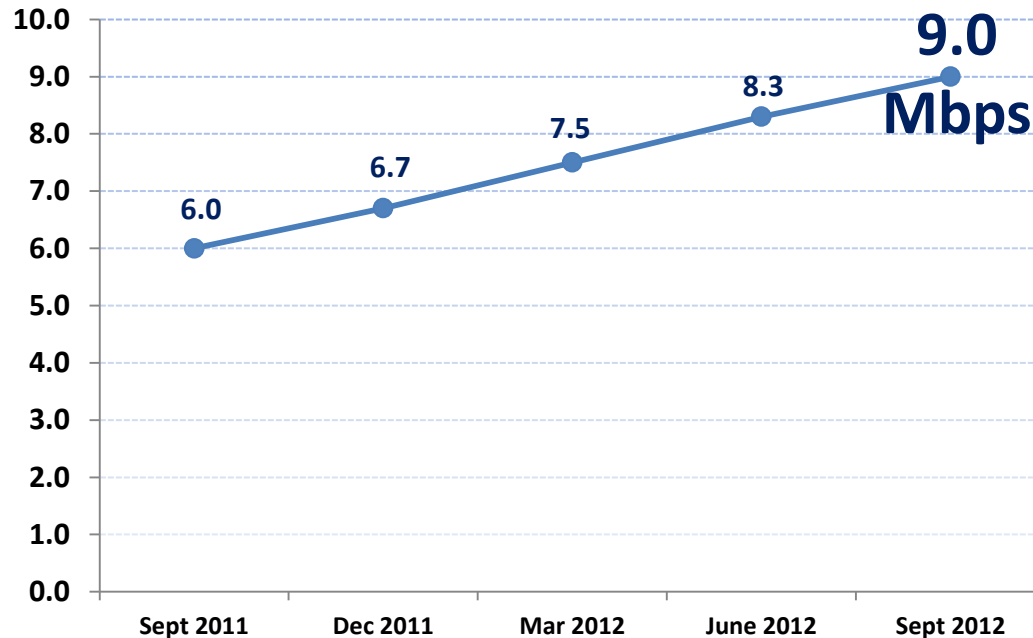
With the NGN, Israel is one of the leading countries in the world in terms of telecom infrastructure and advanced services



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

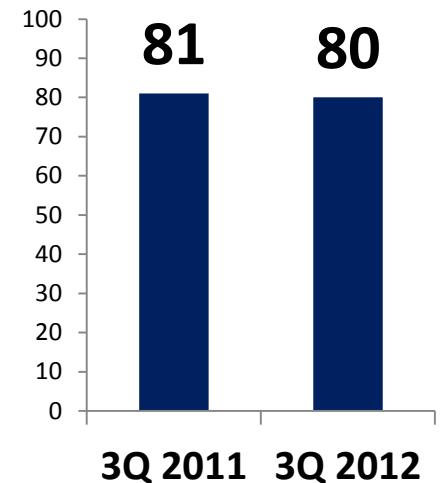
NGN Increasing Average Broadband Speeds

50% year-over-year increase in average broadband speed per subscriber



Megabits Per Second (Mbps)

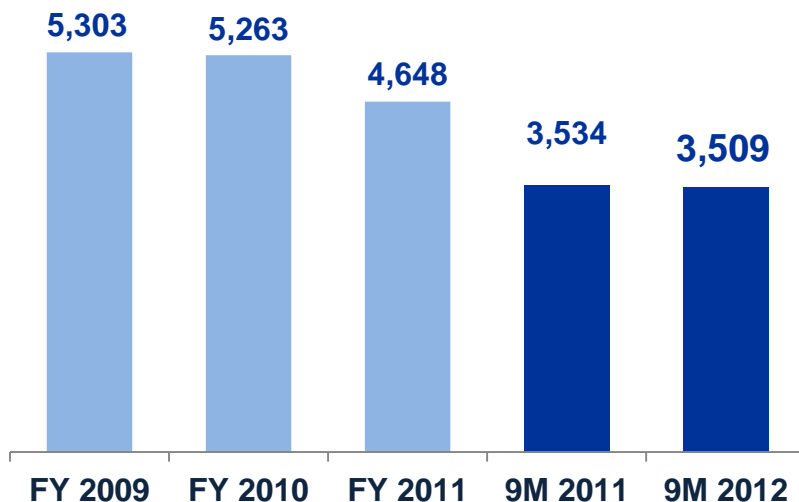
Broadband Internet ARPU (NIS)



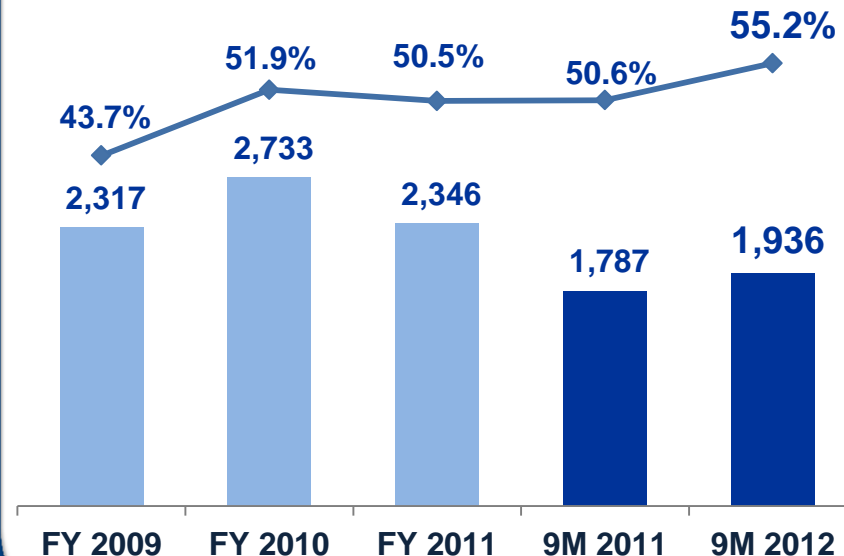
NGN
Next Generation Network

Fixed Line – Revenue & EBITDA

Fixed Line Revenue
NIS MM



Fixed Line EBITDA
NIS MM



- Revenue in Q3 2012 declined 3.1% year-over-year due to increased competition in the fixed line market
- EBITDA in Q3 2012 of NIS 604 million, declined 16.8% year-over-year, primarily due to lower capital gains from real estate and copper sales



Telephone

Cellular



- 2.84 million cellular customers
- 3.75 G speed HSPA technology
- Strong platform for advanced data services
- Highly competitive market



Network Speed Leadership



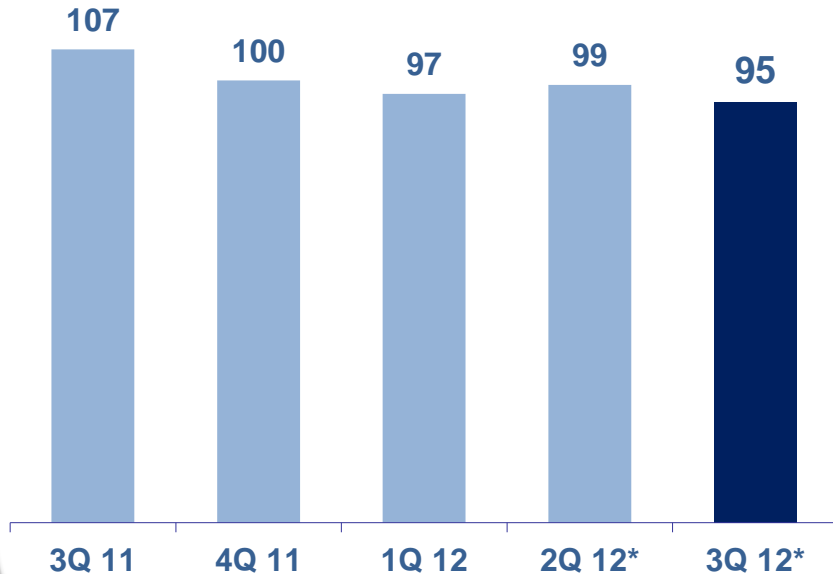
FASTEST iPHONE NETWORK WORLDWIDE

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

- Ookla Net Metrics

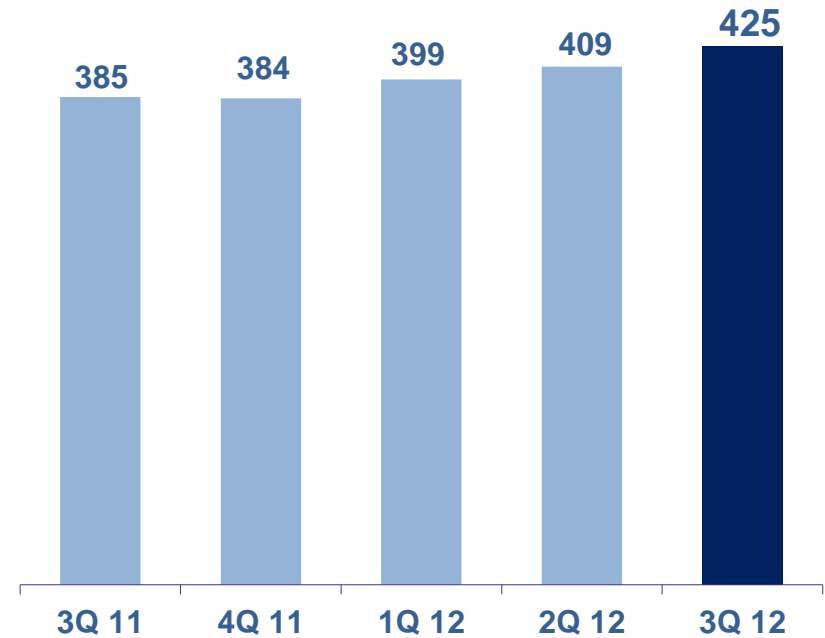
Telephone KPIs

ARPU (NIS)



• ARPU in Q2 and Q3 2012 Include revenues from new communications operators

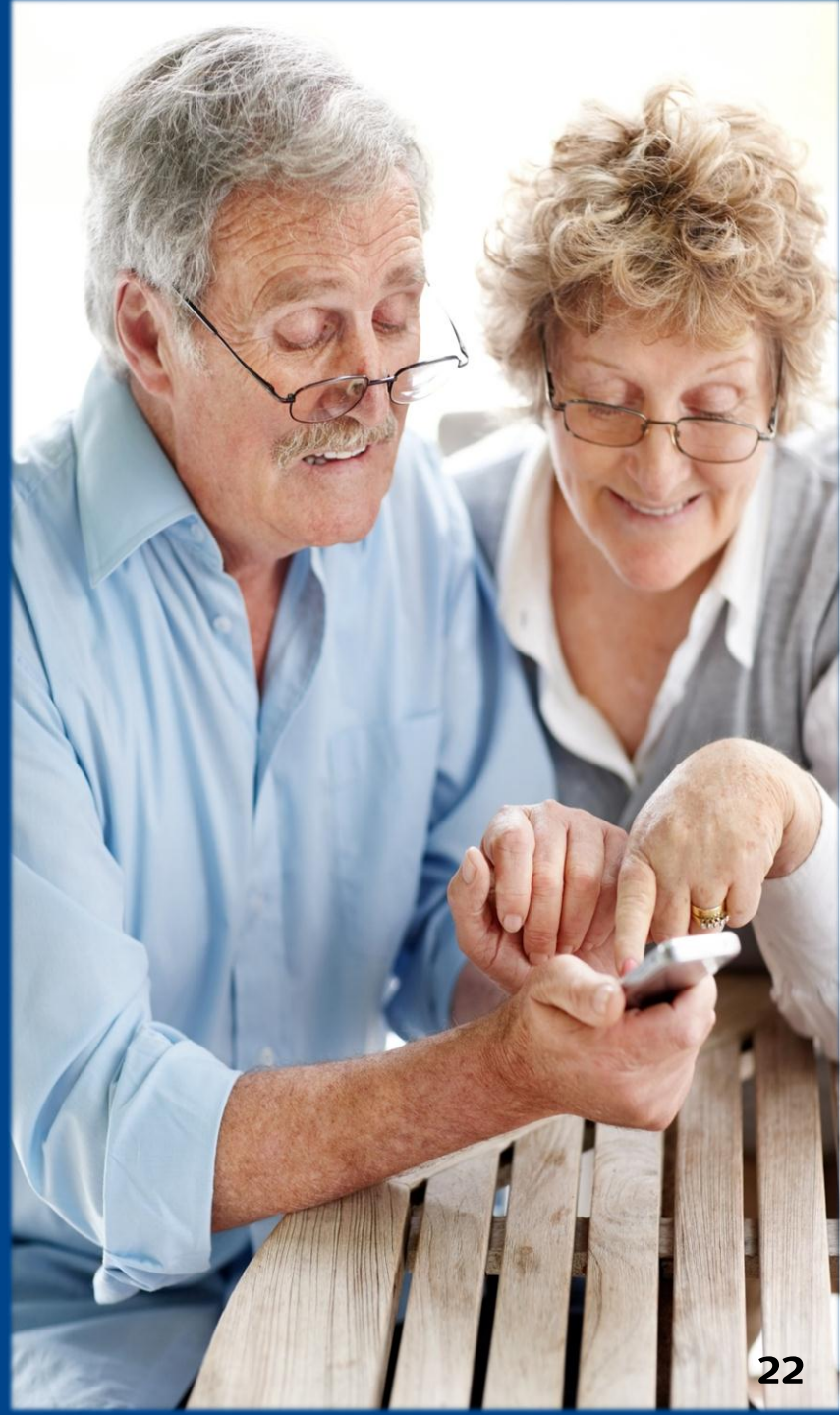
Minutes of Use (MOU)



- ARPU decreased in Q3 2012 due to a reduction in tariffs as a result of increased competition
- MOU increased in Q3 2012 driven by transition to unlimited call packages

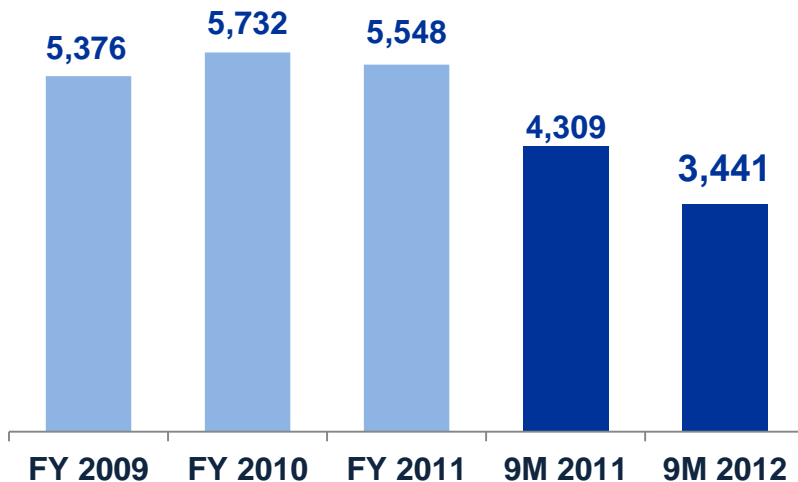
Cellular Competitive Environment

- Navigating new regulatory environment
- New cellular operators
 - Two MNO operators launched services in May 2012 with aggressive pricing plans
 - Three MVNO operators

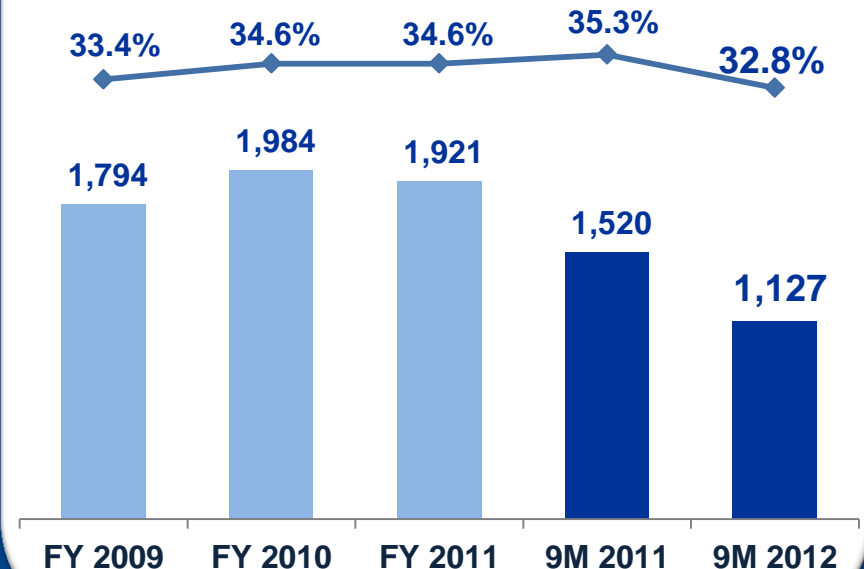


Telephone – Revenue & EBITDA

Telephone Revenue
NIS MM



Telephone EBITDA
NIS MM



- The decline in revenue and EBITDA year-over-year were driven by an increased competitive environment resulting in tariff erosion and a decrease in handsets sold



ISP / ILD / ICT

Bezeq International

Israel's Leading Internet & International Telecom Provider

ISP



- Leading broadband Internet service in Israel
- Approximately 38% 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

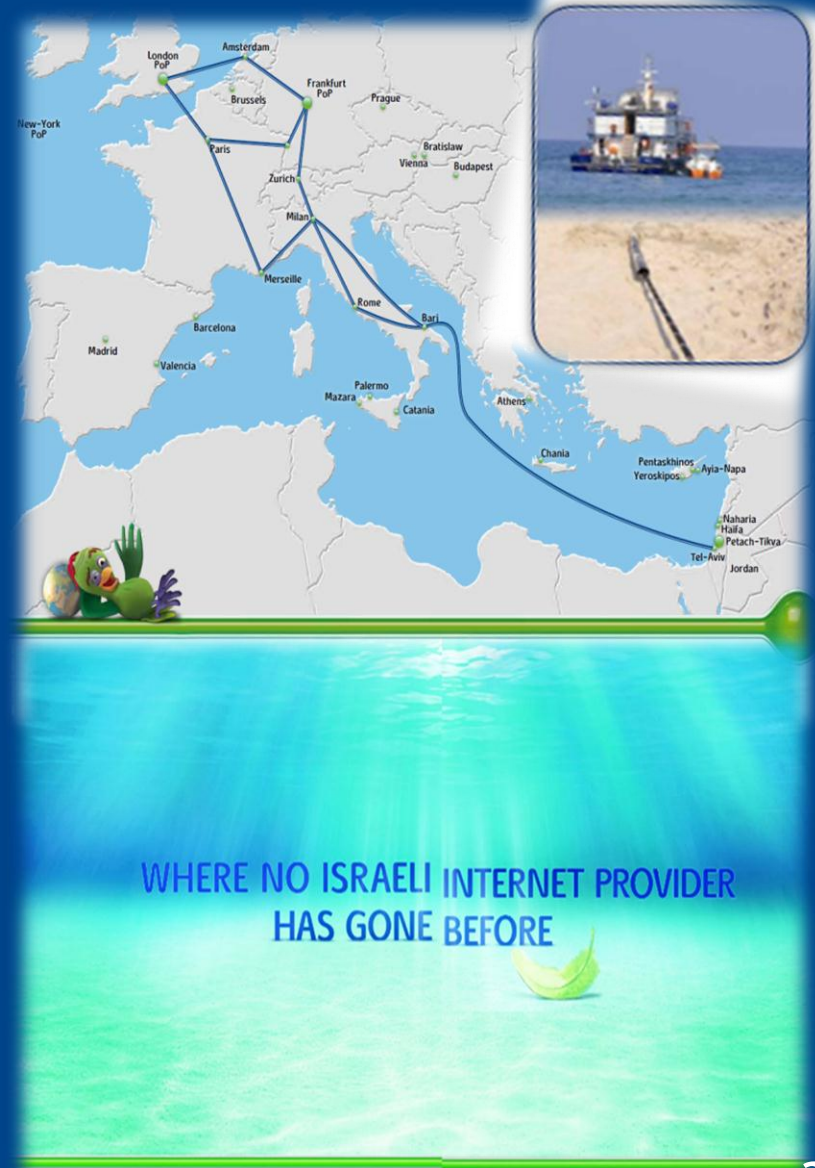


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

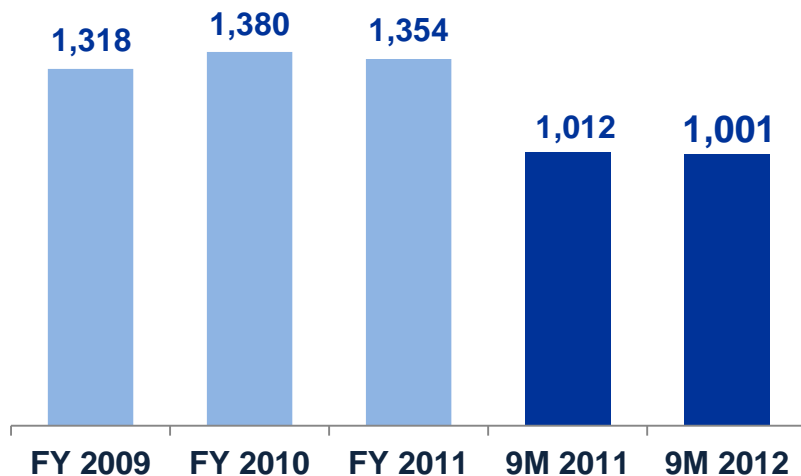
Bezeq International's new submarine cable provides a platform to:

- Better serve its customers via increase capacity and Internet speeds
- Increase revenue streams through additional capacity and services
- Reduce capital expenditures deriving from leasing capacity

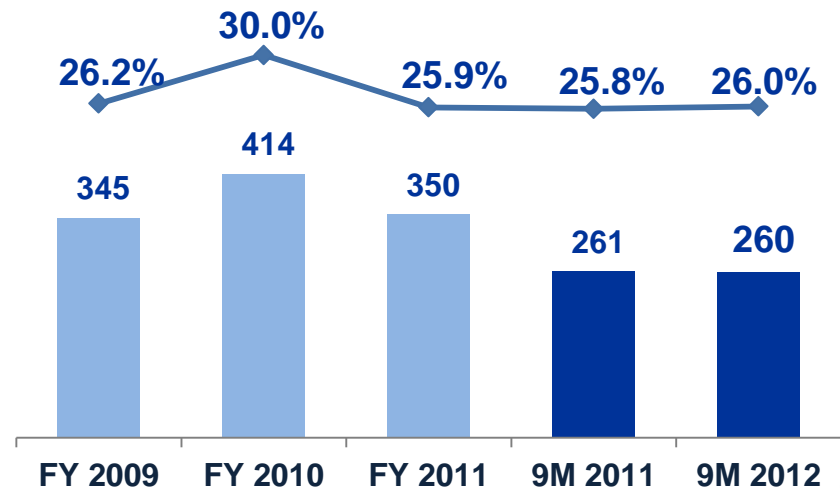


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in Q3 2012 decreased 3.5% to NIS 339 million year-over-year due to a reduction in revenues from international calls
- EBITDA in Q3 2012 reached NIS 89 million, in line year-over-year, for an EBITDA margin of 26.4%



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*
- *581,000 subscribers*
- *39% market share*
- *142 channels of content*
 - *Including 39 Yes branded channels*

Yes – Advanced Services

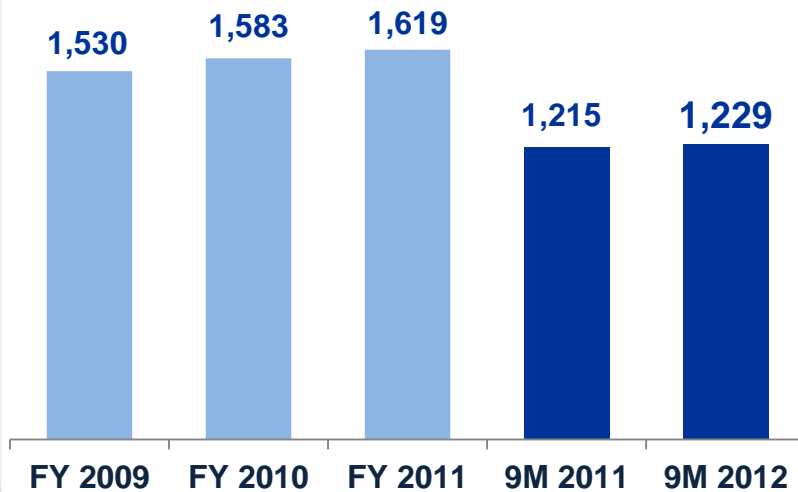


Ultimate Viewing Experience

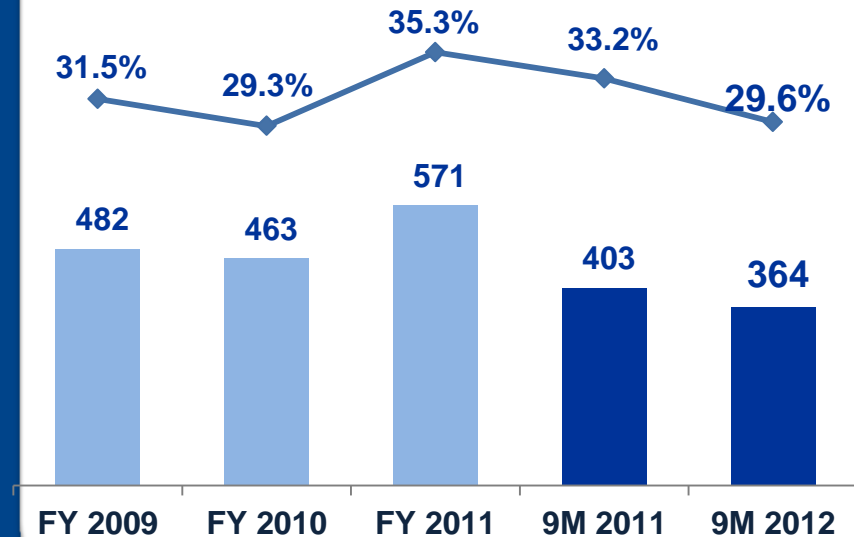
- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

Yes – Revenue & EBITDA

Yes Revenue
NIS MM



Yes EBITDA
NIS MM



- Revenue in Q3 2012 totaled NIS 403 million, a decline of 0.7% year-over-year
- EBITDA in Q3 2012 reached NIS 118 million, down 13.8% year-over-year due to an increase in content and sales 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