



BEZEQ
(TASE: BEZQ)

Investor Presentation
2015 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.

Key Data



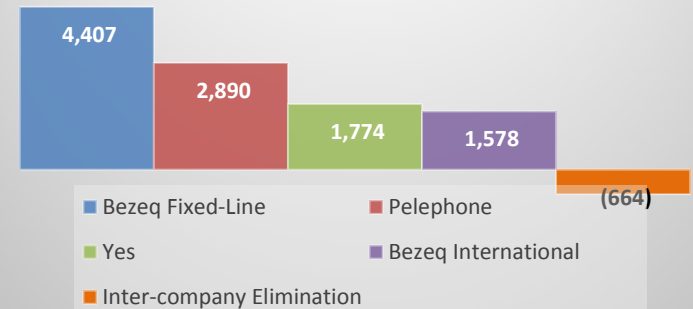
BEZEQ

The largest provider of telecommunications services in Israel

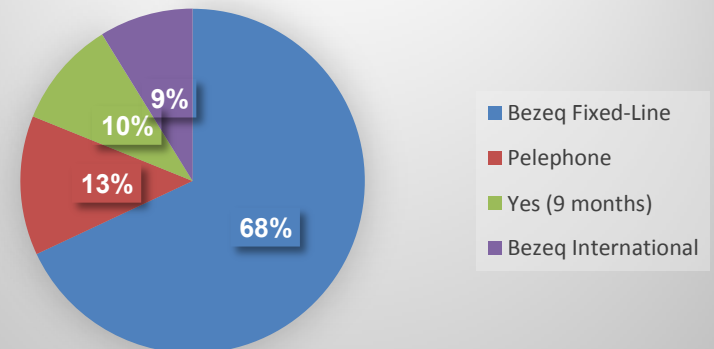
- LTM Revenue: NIS 9.99 billion
- Diversified portfolio in all TMT sub-markets
 - 2.18 million fixed customer lines
 - 2.65 million cellular customer lines
 - 1.48 million broadband lines
 - 635,000 Pay-TV customers
- Highly dynamic telecommunications market combining high penetration rates with considerable growth
- Strong financials in terms of profitability, cash generation and capital structure
- Cash dividends of NIS 1.78 billion paid to shareholders in 2015

Group Revenues - FY 2015

(Total Revenues of NIS 9,985M)



Contribution to Group EBITDA - FY 2015



The Bezeq Advantage



Strong market positions in all telecom sectors

- Leading brand in the Israeli telecom market
- LTM data reflects strong gains in broadband subscribers
- Rich portfolio of advanced and innovative services
- High quality customer service



Advanced nationwide infrastructure

- Lean operations supported by a newly built nationwide NGN converged network
- Long-term commitment to investing in state-of-the-art infrastructure and cutting-edge technologies



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

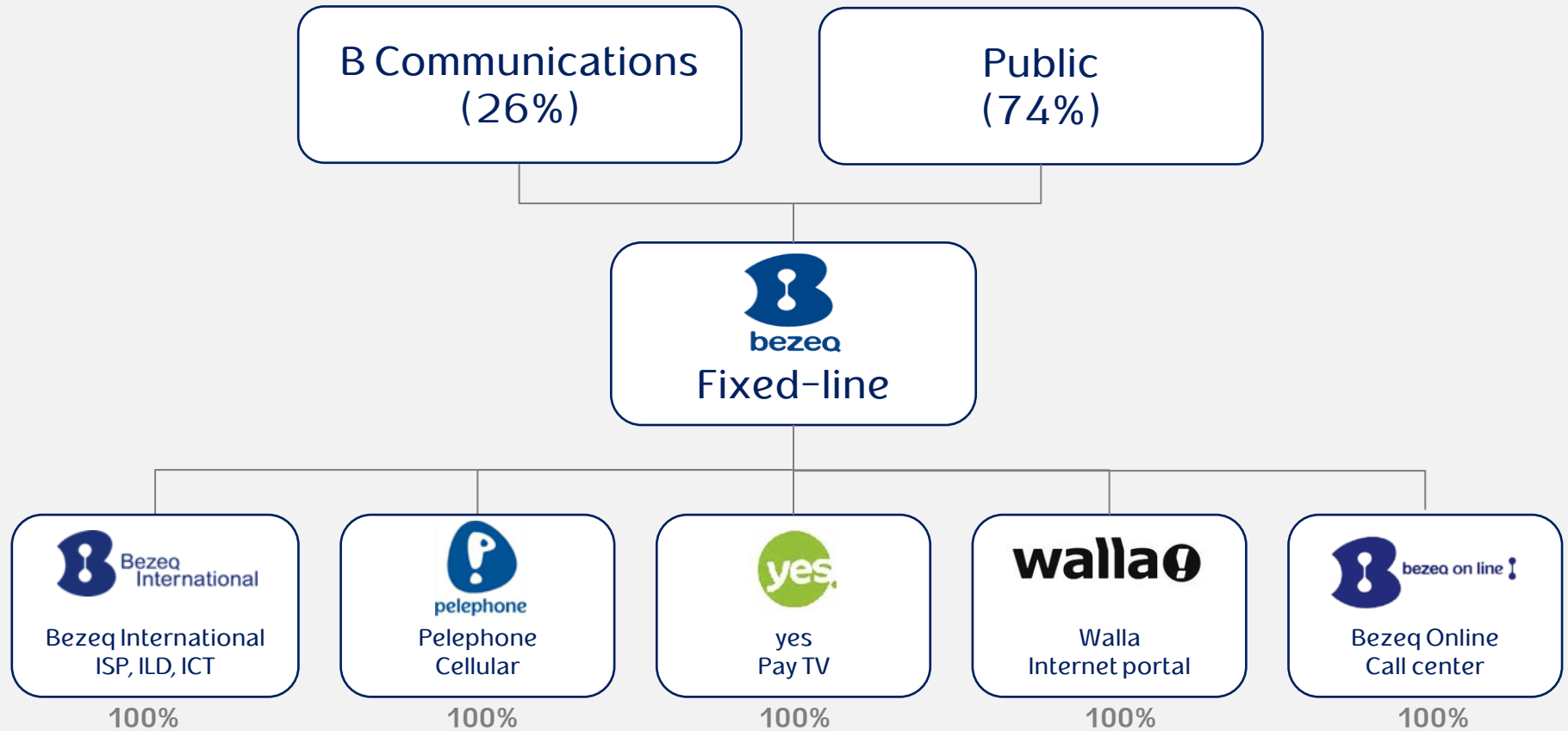
- Well balanced capital structure
- Deregulation policy offers future upside



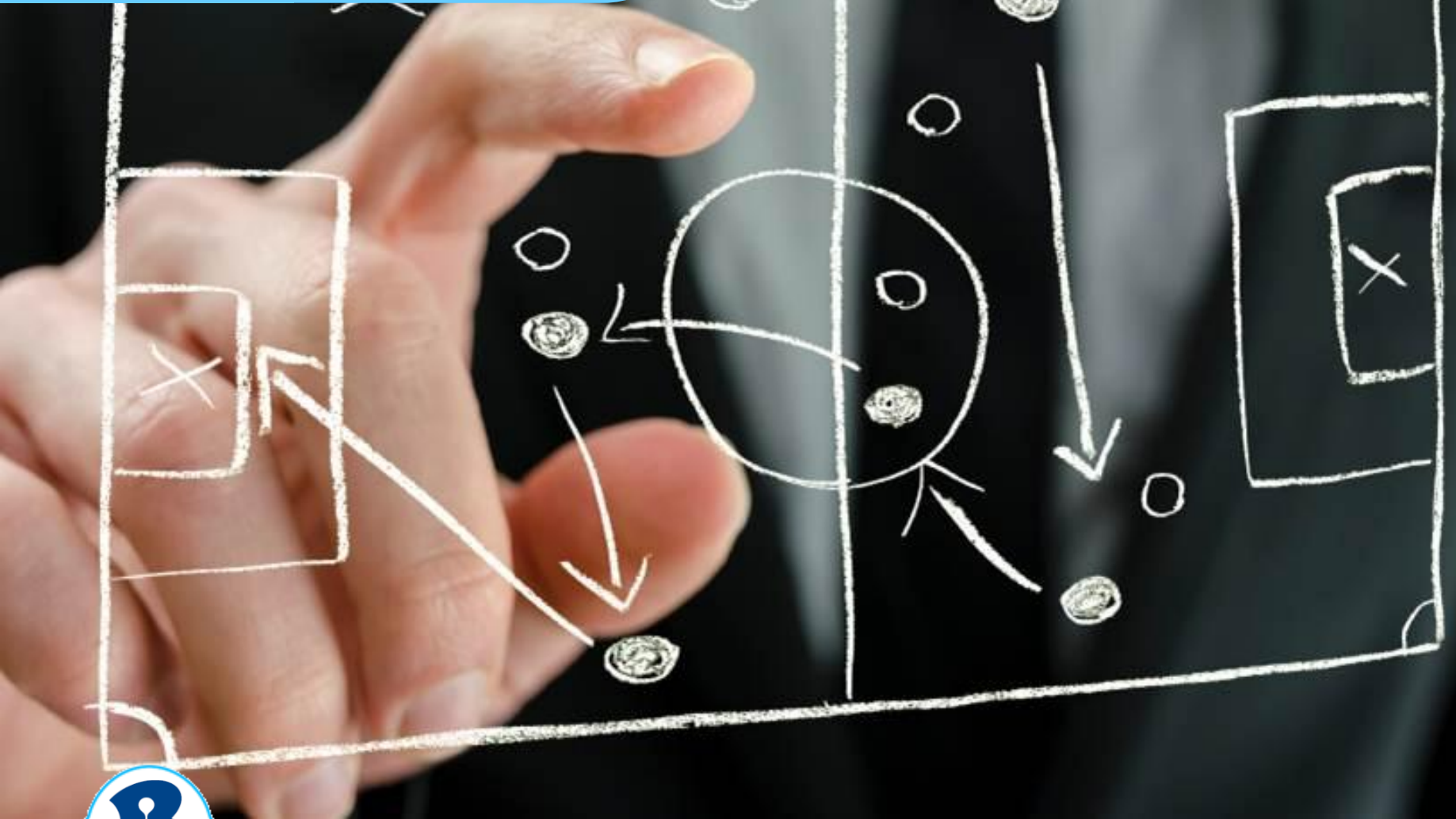
Capable, stable and experienced management team

Bezeq Group





























Wide diversification of advanced telecom services



Competitive Environment



Israeli Telecom Market

Independent Players	Cellcom	orange™	HOT	bezeq	Bezeq Market Share	
	 	 	 	 	56% / 74%	Fixed line telephony (private/business)
  	Wholesale	Wholesale	@		68%	Internet Infrastructure (retail)
	 (OTT)	X	 (Cable)	 (Satellite)	44%	TV
 		 			44%	ISP
		 			26%	Cellular



Investments in Advanced Infrastructure

Fixed Line



- Nationwide coverage of FTTC, all IP converged infrastructure
- High quality backhauling network for ISP services
- FTTB rollout covers over 1.3M households

Telephone

HIGH SPEED GSM+

HSPA/LTE

- HSPA (High Access Packet Speed) cellular technology. Wide deployment of LTE 4G network.
- 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 increases at low incremental cost

Regulatory Opportunities & Challenges

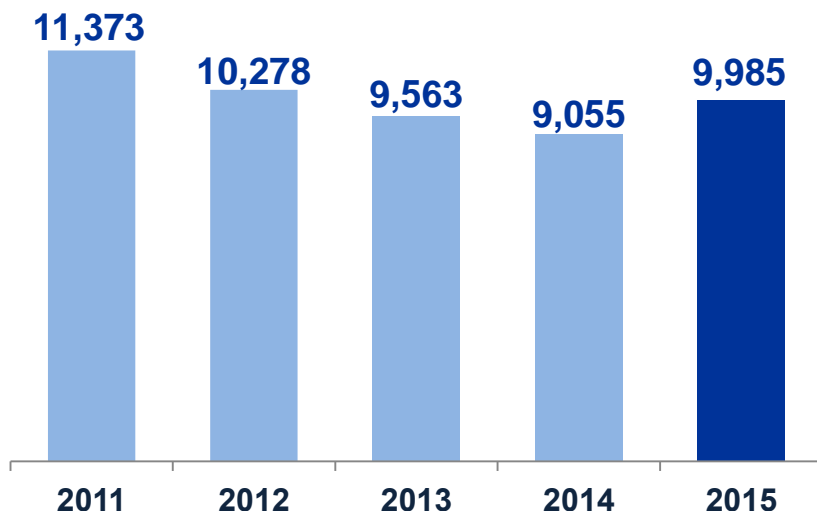
- **Removal of structural separation**
- **Introduction of wholesale/resale market**
- **Increased flexibility in retail operations**



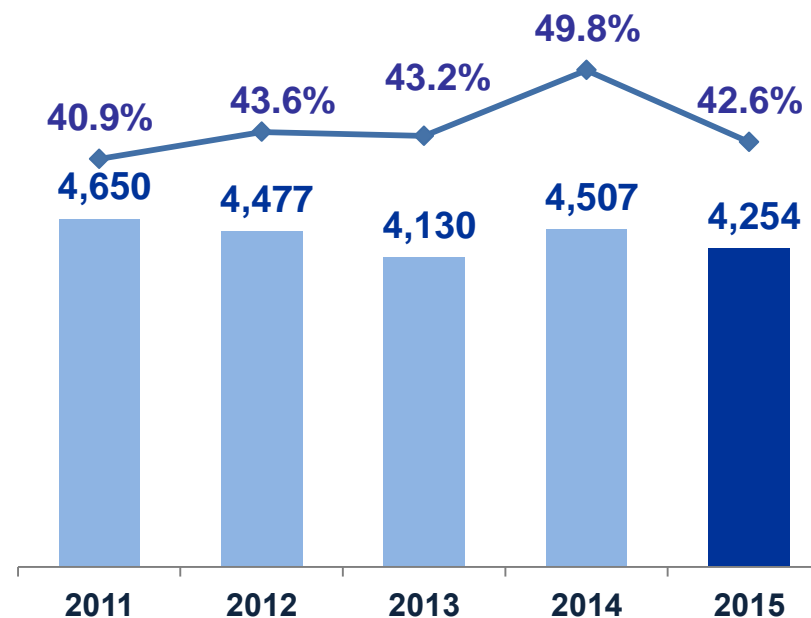
Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM



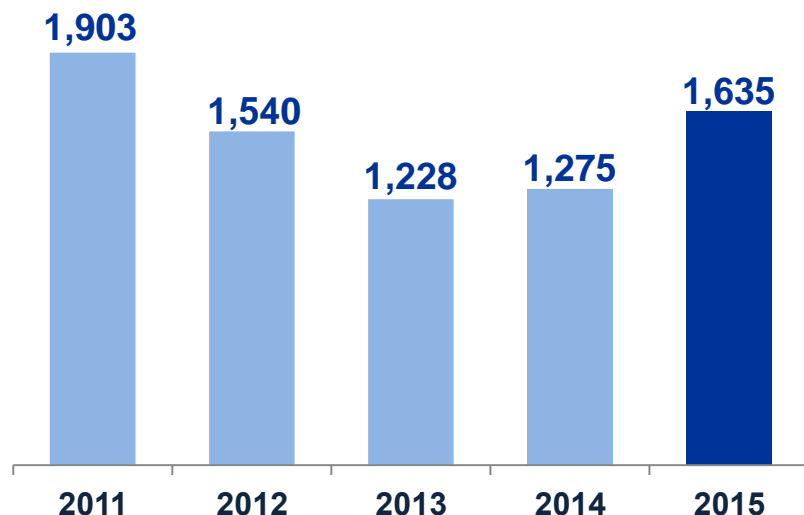
Consolidated EBITDA
NIS MM



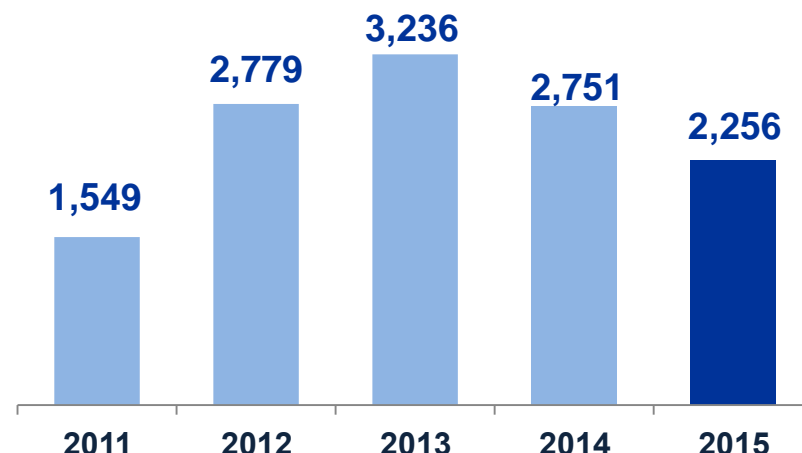
- Consolidated 2015 revenue increased 10.3% y-o-y primarily impacted by the consolidation of yes revenues beginning in Q2 2015 in the amount of NIS 1.33 billion and an increase in the revenues of Bezeq Fixed-Line and Bezeq International. The increase was partially mitigated by lower revenues at Telephone.
- EBITDA decreased 5.6% y-o-y, due to higher operating expenses as a result of consolidating yes operating expenses beginning in Q2 2015 in the amount of NIS 695 million.

Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx
NIS MM



Consolidated Free Cash Flow⁽¹⁾
NIS MM



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

- The Group's higher level of investments in 2015 was primarily due to the consolidation of yes investments beginning in Q2 2015 in the amount of NIS 200 million as well as an increase in investments at Pelephone and Bezeq Fixed-Line.
- Free cash flow in 2015 decreased 18.0% y-o-y primarily due to the increase in investments.

Bezeq Group – 2016 Guidance

Net profit attributable to shareholders:	Approximately NIS 1.4 billion
EBITDA:	Approximately NIS 4.2 billion
Free cash flow:	Approximately NIS 2.0 billion

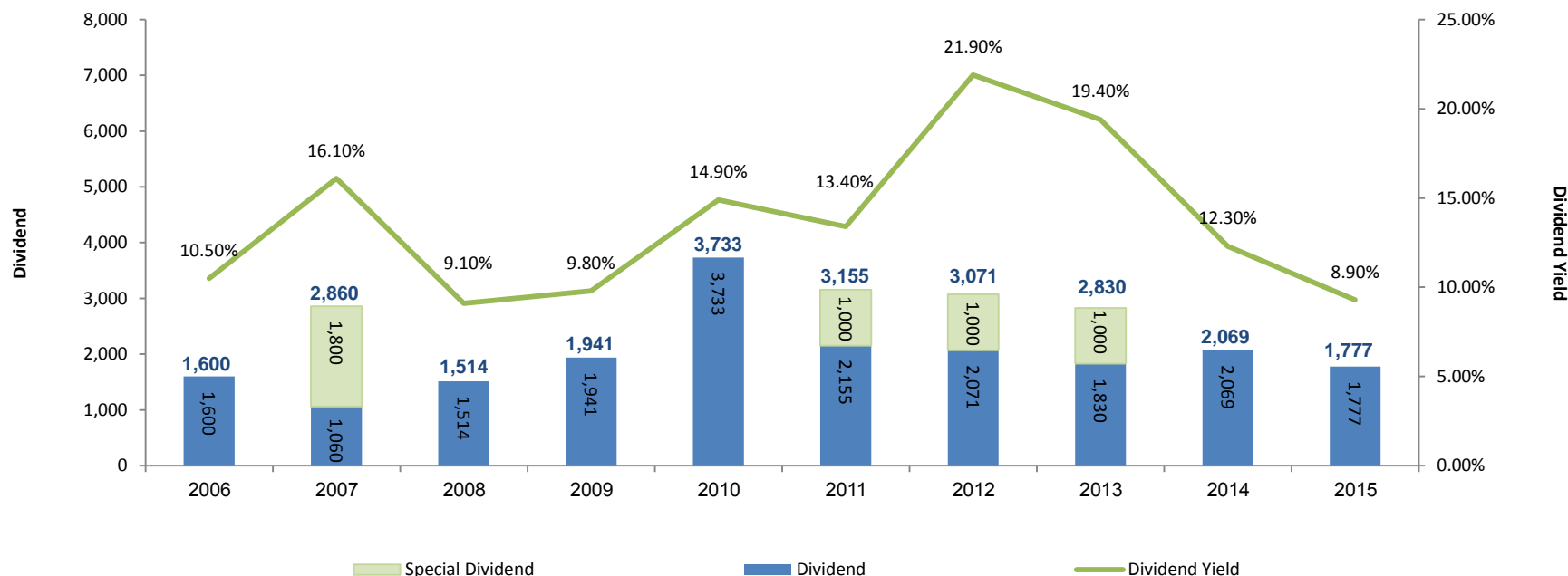
The Company's forecasts detailed above are forward-looking information, as defined in the Securities Law, and are based on assessments, assumptions and expectations of the Company, including the following:

The forecasts do not include the effects of a provision for the early retirement of employees and/or the signing of a collective labor agreement as may occur, nor the realization of Company rights in the real estate property "Sakia" or the cancellation of the Group's structural separation.

The forecasts are 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 2016. 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 2015.

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)



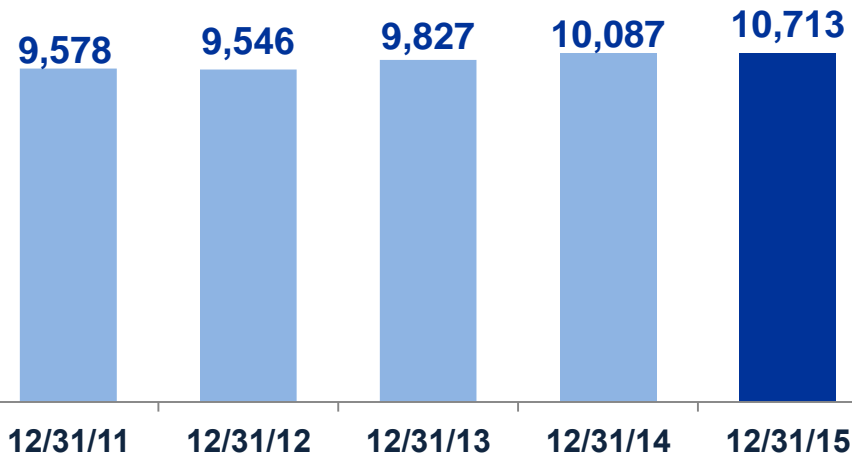
Dividend Policy: 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis:

- Dividend Yield is based on average market cap during the period.

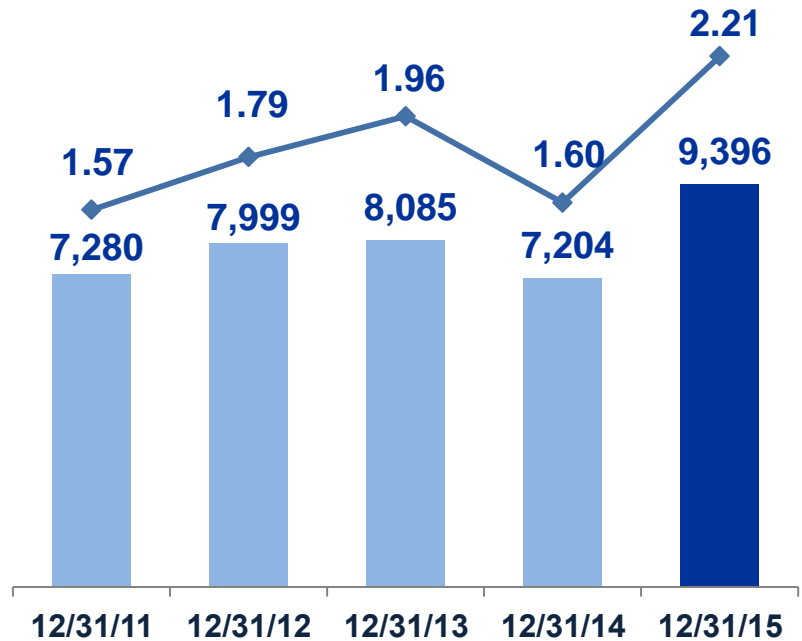
The Board of Directors recommended the distribution of 100% of net profits for the second half of 2015 as a cash dividend to shareholders of NIS 776 million (approximately NIS 0.28 per share). The semi-annual dividend, which is subject to shareholder approval, would be payable on May 30, 2016. The ex-dividend date is May 17, 2016.

Bezeq Group – Debt*

Group Gross Debt (NIS MM)



Net Debt (NIS MM) — Net Debt / EBITDA



* Includes consolidation of yes as of March 31, 2015



Fixed Line

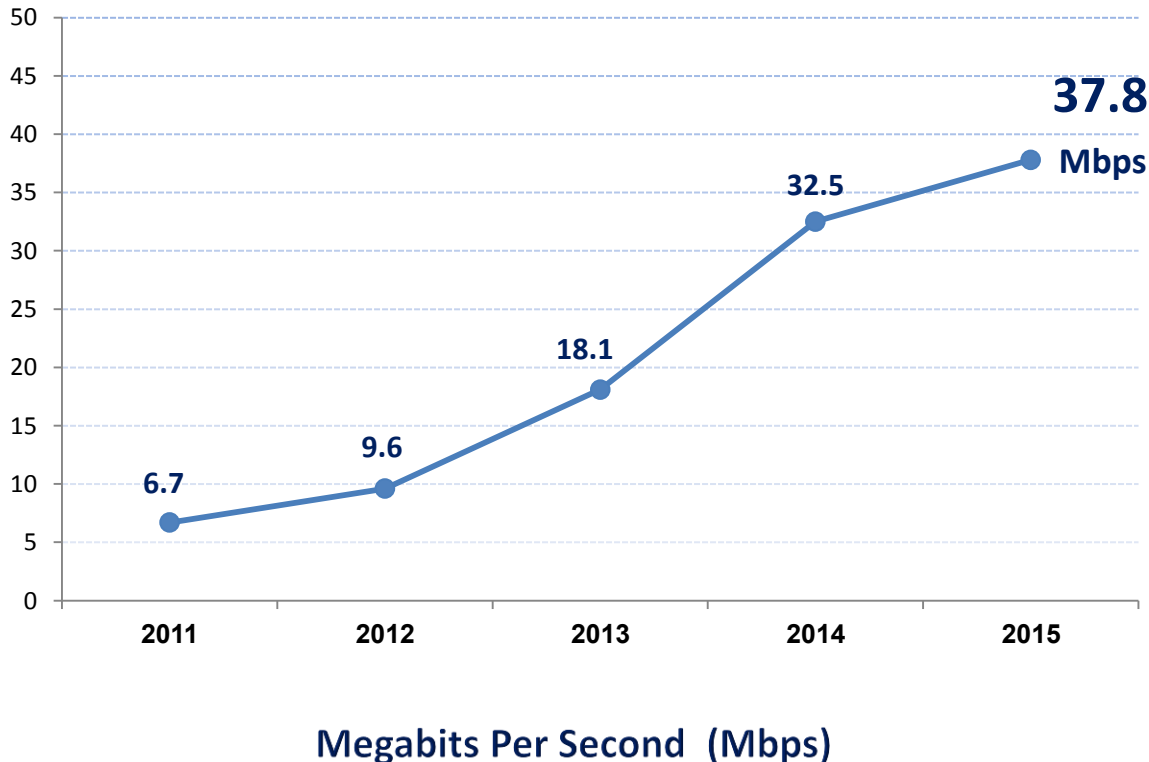
Bezeq Fixed-Line

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

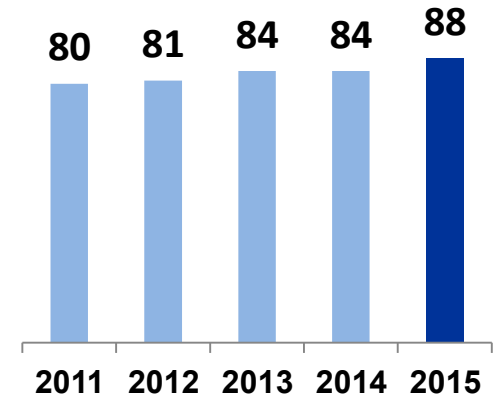
- ✓ **Leading broadband provider in Israel with approximately 68% market share, growing by eight percentage points in the last three years**
- ✓ **More than 115k broadband customers added in last 12 months, representing an 8.4% increase y-o-y**
- ✓ **Broadband retail ARPU growth fueled by continuous 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**

NGN enables ongoing increases in bandwidth and ARPU growth

16% year-over-year increase in average broadband speed per subscriber



Broadband Internet ARPU (NIS)

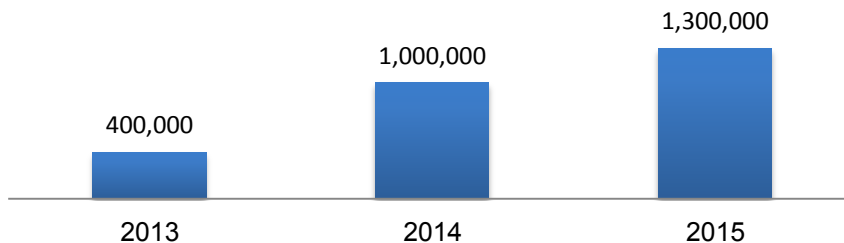


Fiber-to-the-Building Rollout

G Fast and other fiber optic technology field trials in 2016



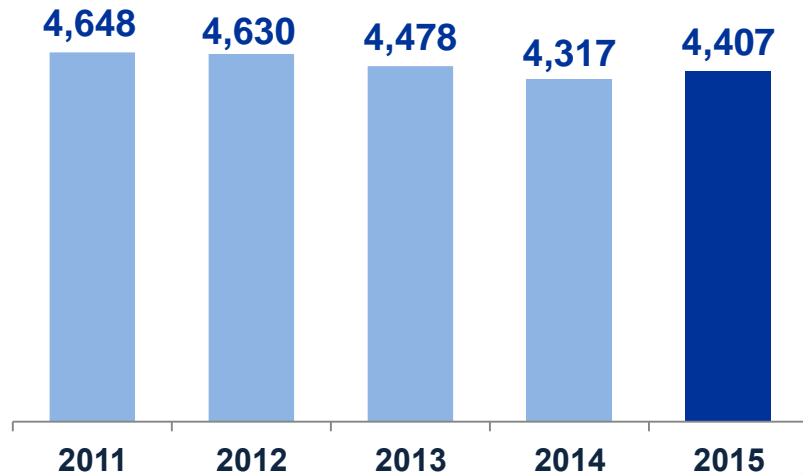
FTTB Homes Passed



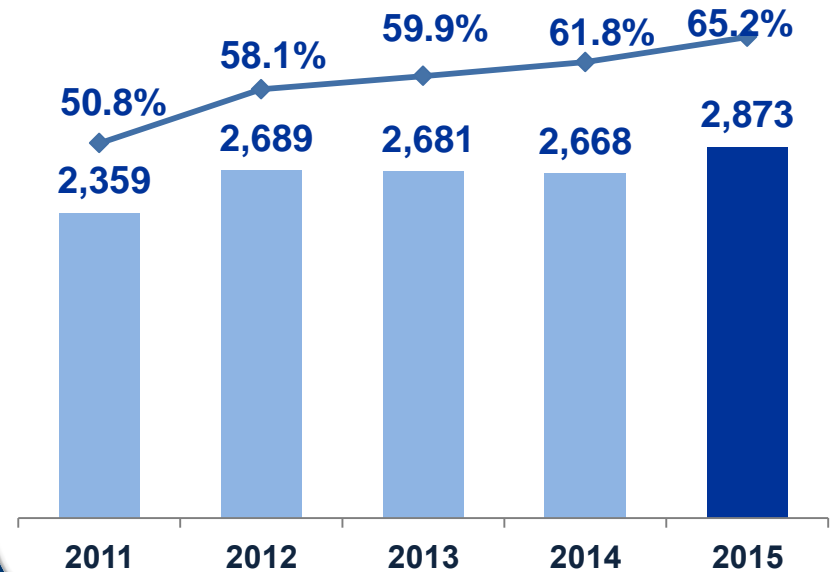
Bezeq Fixed Line has reached an additional 300k homes in 2015 representing a total of 1.3m homes passed or approximately **60%** of the Israeli population

Bezeq Fixed-Line – Revenue & EBITDA

Bezeq Fixed-Line Revenue
NIS MM



Bezeq Fixed-Line EBITDA
NIS MM



- Revenues increased 2.1% for 2015 compared to last year primarily due to higher revenues from broadband Internet services as well as transmission and data communication services, together with a moderated reduction in telephony revenues.
- EBITDA increased 7.7% in 2015 versus 2014 primarily due to higher revenues and a decrease in operating expenses.



Pelephone

Cellular

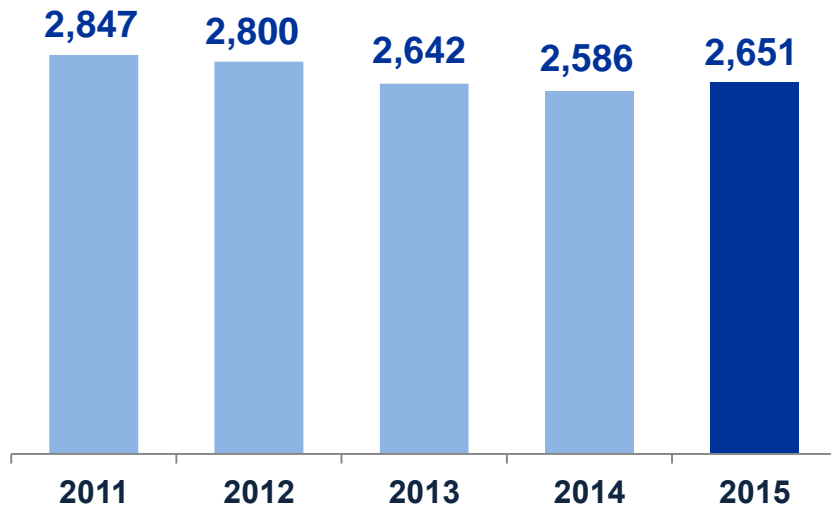


- 2.65 million cellular customers
- Nationwide HSPA network; wide deployment of 4G (LTE) network
- Pelephone private label smartphones (Gini)
- Strong platform for advanced data services
- Host of value added services (cloud, music, TV, ringtones, etc..)

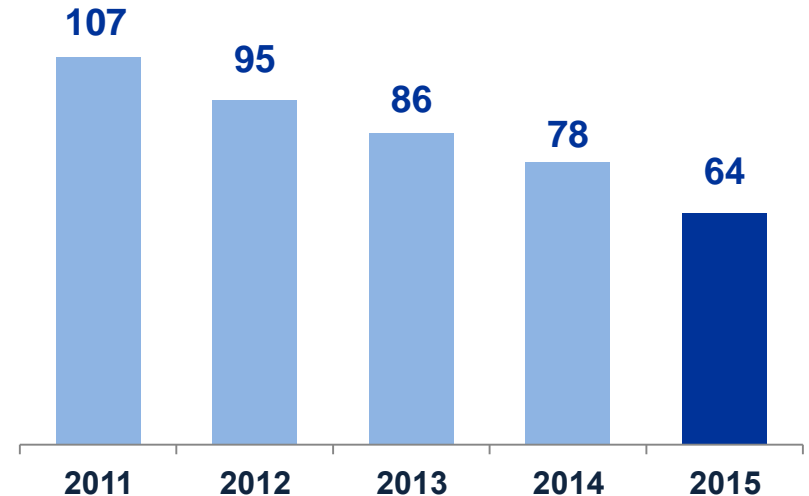


Telephone KPIs

Subscribers (in 000's)



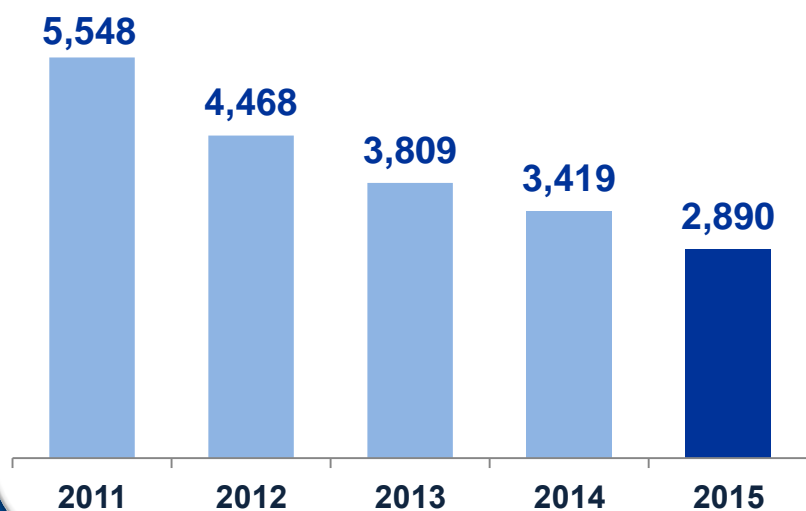
ARPU (NIS)



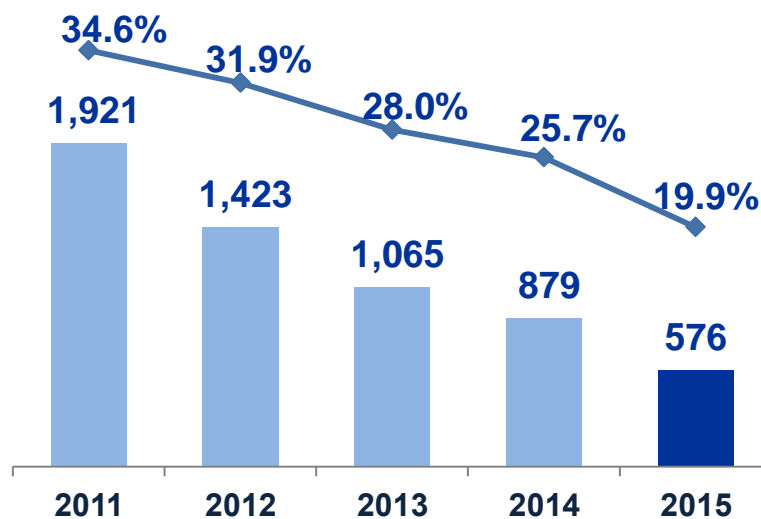
- Cellular subscribers at the end of 2015 reached 2.651 billion primarily due to acquisition of YouPhone subscribers as well as customer retention measures and the launch of new prepaid plans.
- ARPU in 2015 decreased as a result of continued competition in the cellular market as well as the termination of the hosting agreement with Hot Mobile in December 2014, which resulted in a decrease of NIS 7 in ARPU.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- Revenue and EBITDA declined 15.5% and 34.5% respectively y-o-y driven by lower revenues from cellular services primarily due to the termination of the hosting agreement with Hot Mobile as well as increased competition in the cellular market.
- After adjusting for revenues from the hosting agreement with Hot Mobile, EBITDA decreased by NIS 92 million compared to 2014.



ISP / ILD / ICT

Bezeq International

Israel's leading ISP & ICT telecom provider with a differentiated product and services offering

ISP



- Leading broadband Internet service in Israel
- 44% Internet market share
- Cutting-edge infrastructure
- Customized service plans
- Advanced IP services

ILD



- International telephony
- Top-tier international agreements
- Leading customer service

ICT



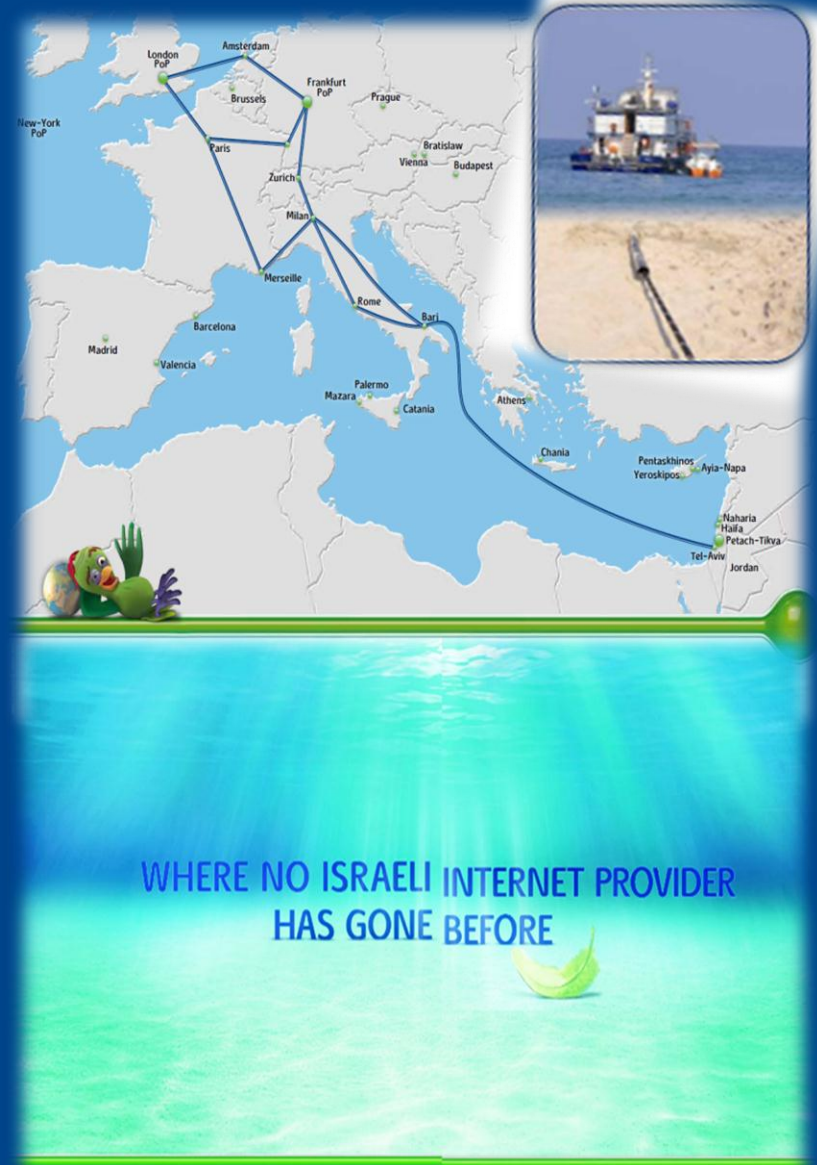
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

The only ISP in Israel with direct ownership of a submarine cable connecting Israel to Europe

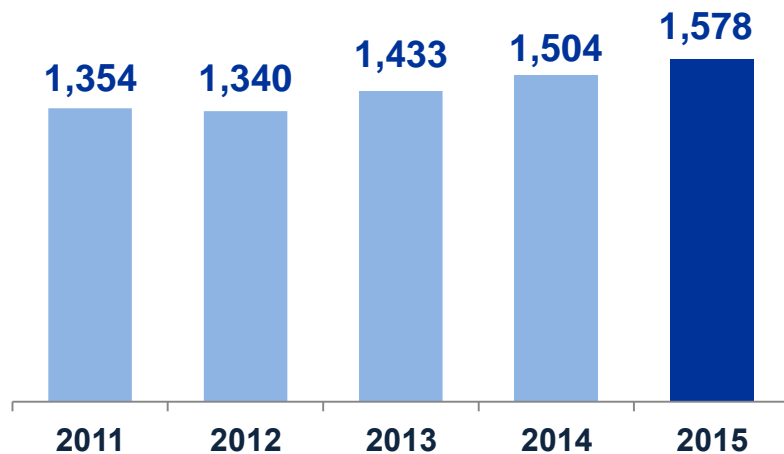
Bezeq International's submarine cable provides a platform to:

- Better serve its customers via unlimited international bandwidth
- Key differentiator versus competitors
- Eliminates the need to lease capacity from third party submarine cable owners

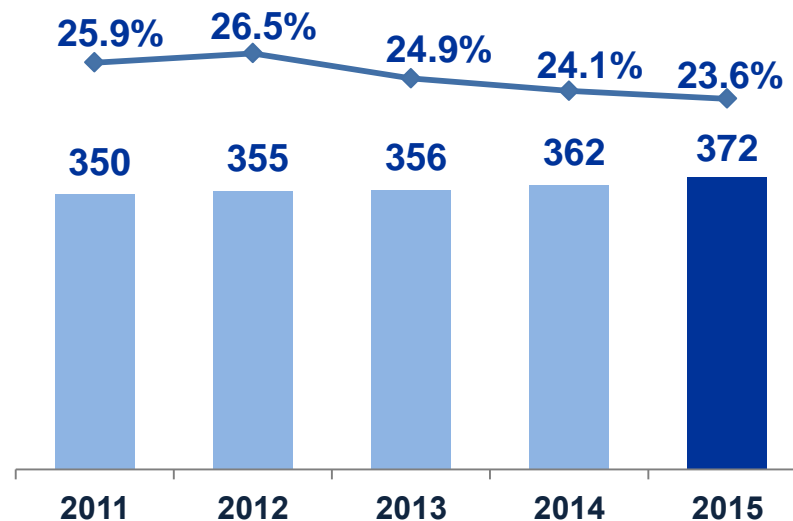


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in 2015 increased 4.9% y-o-y to 1.578 billion due to strong growth from business communications services (ICT) as well as from Internet services delivered across the submarine cable infrastructure.
- EBITDA in 2015 grew 2.8% to NIS 372 million, for an EBITDA margin of 23.6%.

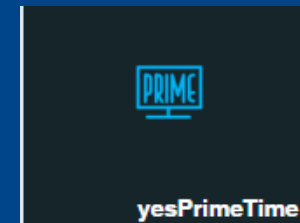
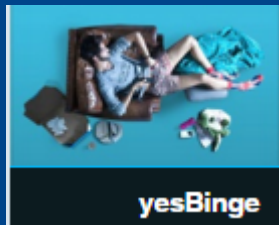


**Multi-Channel
DTH Provider**



Leading brand for content, innovative applications and customer service

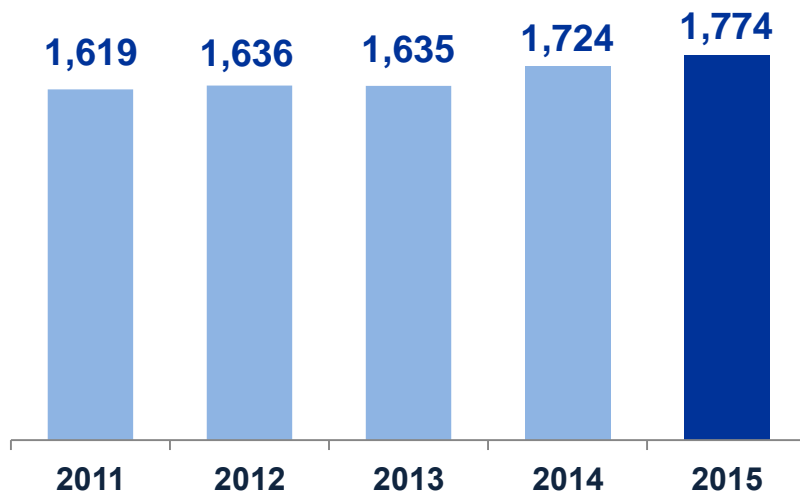
- *Fully digital with nationwide deployment*
- *44% market share*
- *Growing customer base with stable ARPU, supported by increased revenues from VOD and other advanced services*
- *Rich content offering with extensive agreements with first-tier content producers*
- *Over 160 channels including 39 yes branded channels*



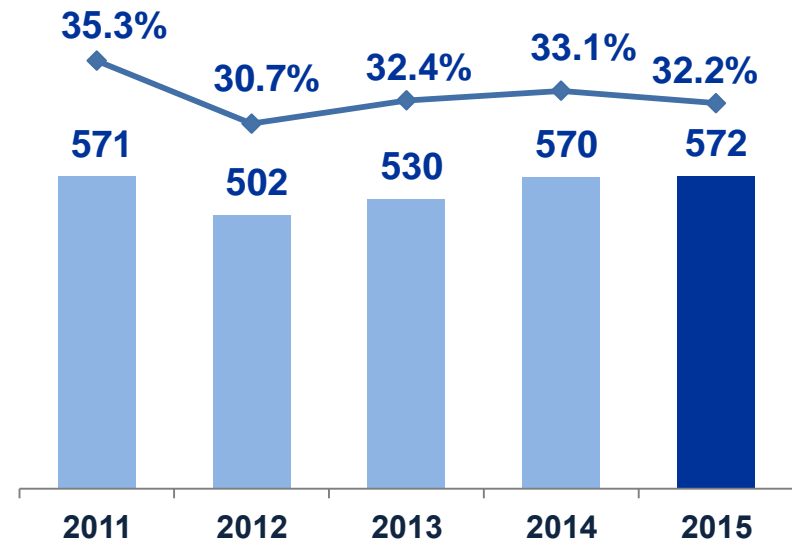
- ✓ Innovative applications based on state-of-the-art technology
- ✓ Average of three set-top boxes per household with significant proportion of HD

yes – Revenue & EBITDA

yes Revenue
NIS MM



yes EBITDA
NIS MM



- Revenues in 2015 increased 2.9% y-o-y to NIS 1.774 billion, due to growth in the number of subscribers.
- EBITDA in 2015 increased 0.4% y-o-y to NIS 572 million. EBITDA margin was 32.2% for 2015.

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)**

Embracing the Telecom Future

Ongoing investment in advanced infrastructure and technological leadership
- LTE, Fiber, submarine cable and advanced multichannel TV technologies

Continued emphasis on the Company's brands as "premium" by means of brand differentiation in each market - leading content in television, fast quality internet with value-added services, fast and advanced cellular network

Maintaining quality personnel and strong management

Expanding our innovative product offering to increase revenues, stickiness and expand Company's footprint - TV Everywhere, advanced STB, Cloud, Smart Home, M-Payments, M2M, etc.

Continued investment in high quality customer service - shift towards self service, automation and proaction

Increasing synergy levels between companies within the group to maximize revenues, increase efficiency and reduce expenditures



Thank You

For more information please visit
www.bezeq.co.il