



**BEZEQ**  
**(TASE: BEZQ)**

**Investor Presentation**  
**First 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.

# BEZEQ

The largest provider of  
telecommunications services  
in Israel

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- LTM Revenue: NIS 9.9 billion
- Most comprehensive range of offerings
  - 2.24 million fixed customer lines
  - 2.74 million cellular customer lines
  - 1.19 million broadband lines
  - 578,000 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

  
bezeq **Fixed  
Line**

  
pelephone **Cellular**

  
Bezeq  
International  
**ISP, ILD, ICT**

  
**yes, 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
- Over 98% 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



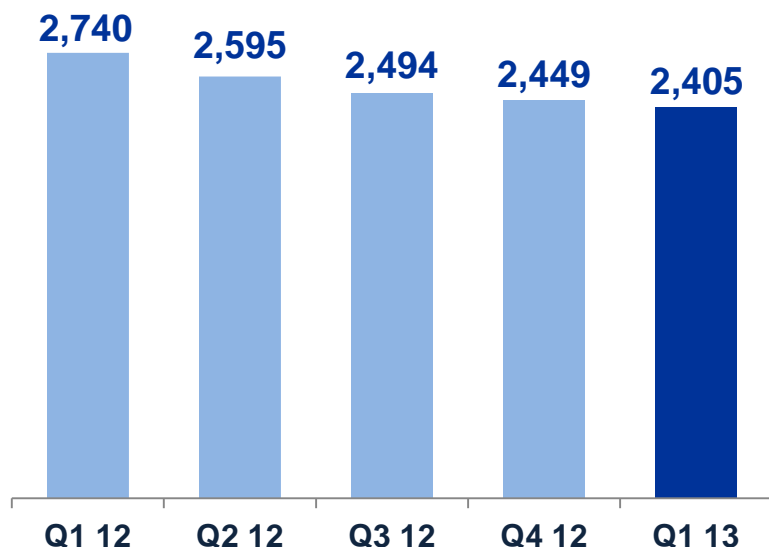
- New high-speed submarine cable system deployed between Israel and Europe
- Increasing bandwidth at affordable rates



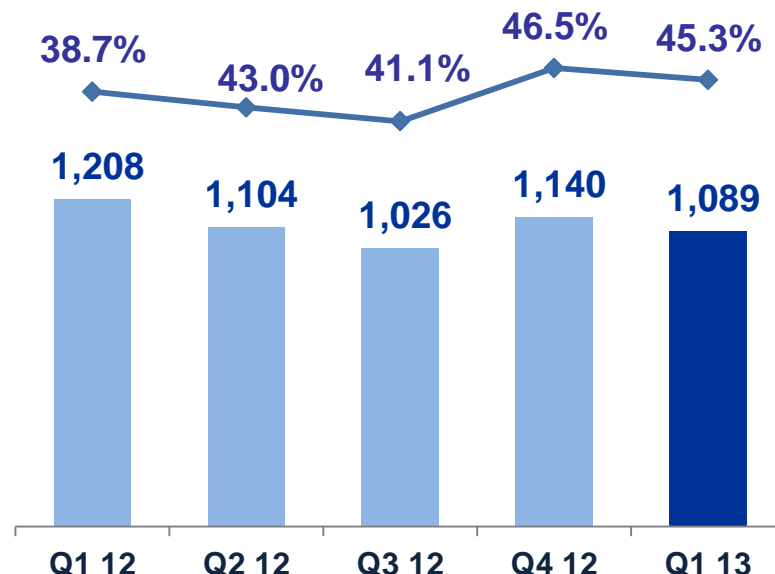
# Bezeq Group Financial Overview

# Bezeq Group – Revenue & EBITDA

Consolidated Revenue  
NIS MM



Consolidated EBITDA  
NIS MM

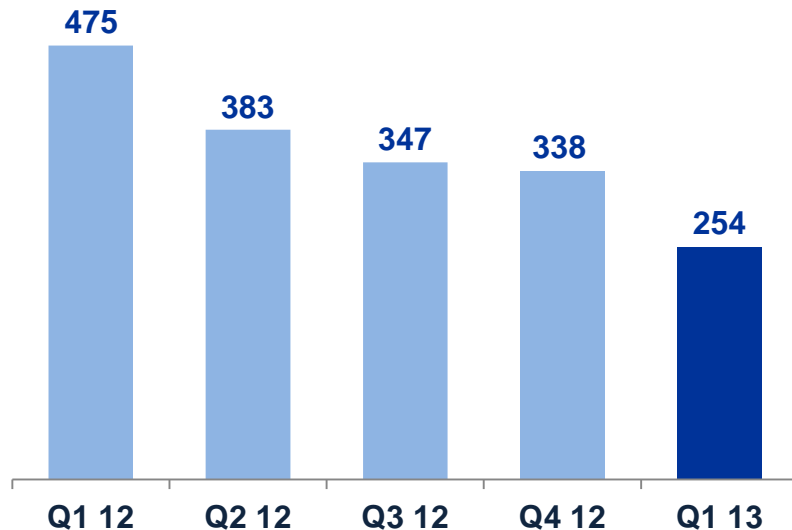


- Consolidated revenue in Q1 2013 decreased 12.2% Y-o-Y mainly due to a reduction in Telephone revenues from cellular equipment and services
- EBITDA in Q1 2013 decreased 9.9% Y-o-Y primarily due to lower profitability at Telephone related to an increasingly competitive environment.



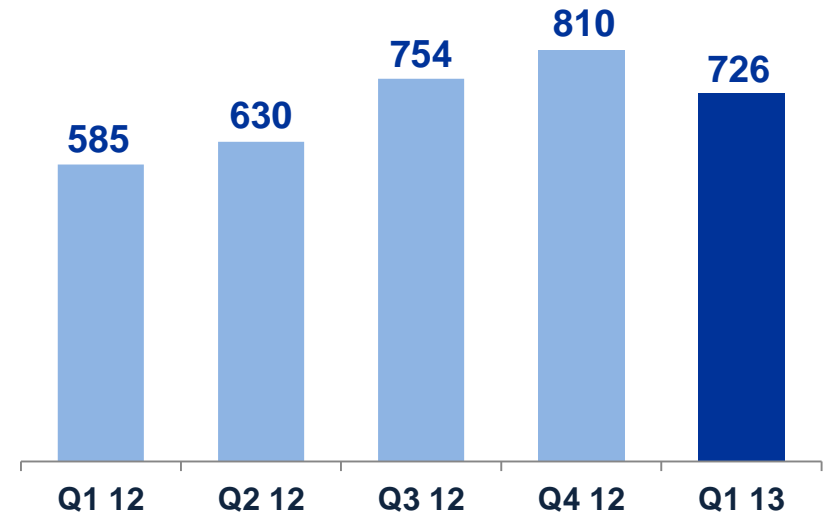
# Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx  
NIS MM



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

Consolidated Free Cash Flow <sup>(1) (2)</sup>  
NIS MM

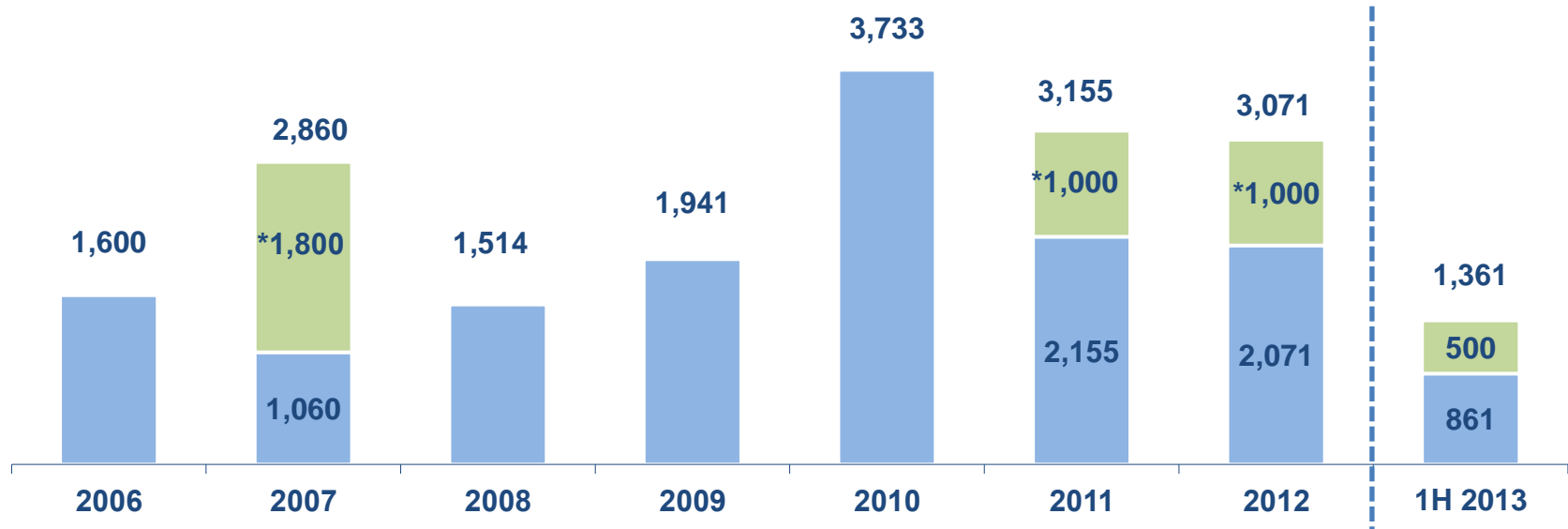


1. Free cash flow defined as Cash Flow from Operations– Net Capex  
2. Excluding yes

- Capex in Q1 2013 was positively influenced by the progress made in the NGN project and completion of Bezeq International's submarine cable deployment
- Free cash flow in Q1 2013 increased 24.1% Y-o-Y due to the rise 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)

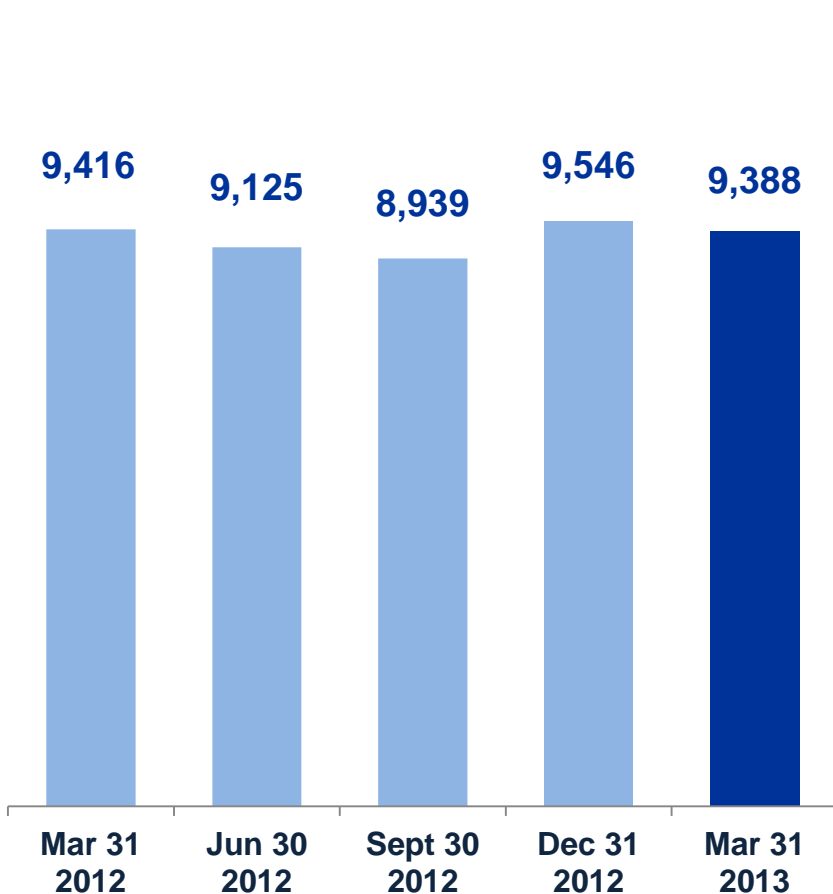


\* Special dividend

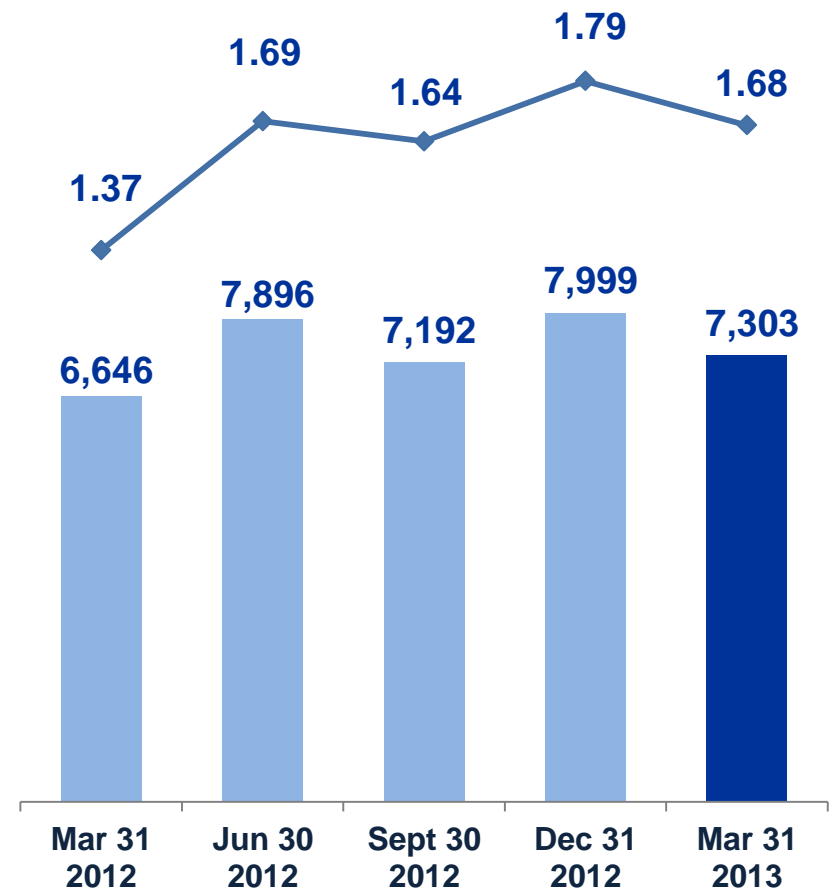
- **Regular Dividends:** 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis
- **Special Dividends:** Six semi-annual NIS 500 million payments running from 2011 to 2013, as part of the Company's capital reduction plan. The fifth payment will be made together with the regular dividend on May 13, 2013

# 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**



**Fixed Line**

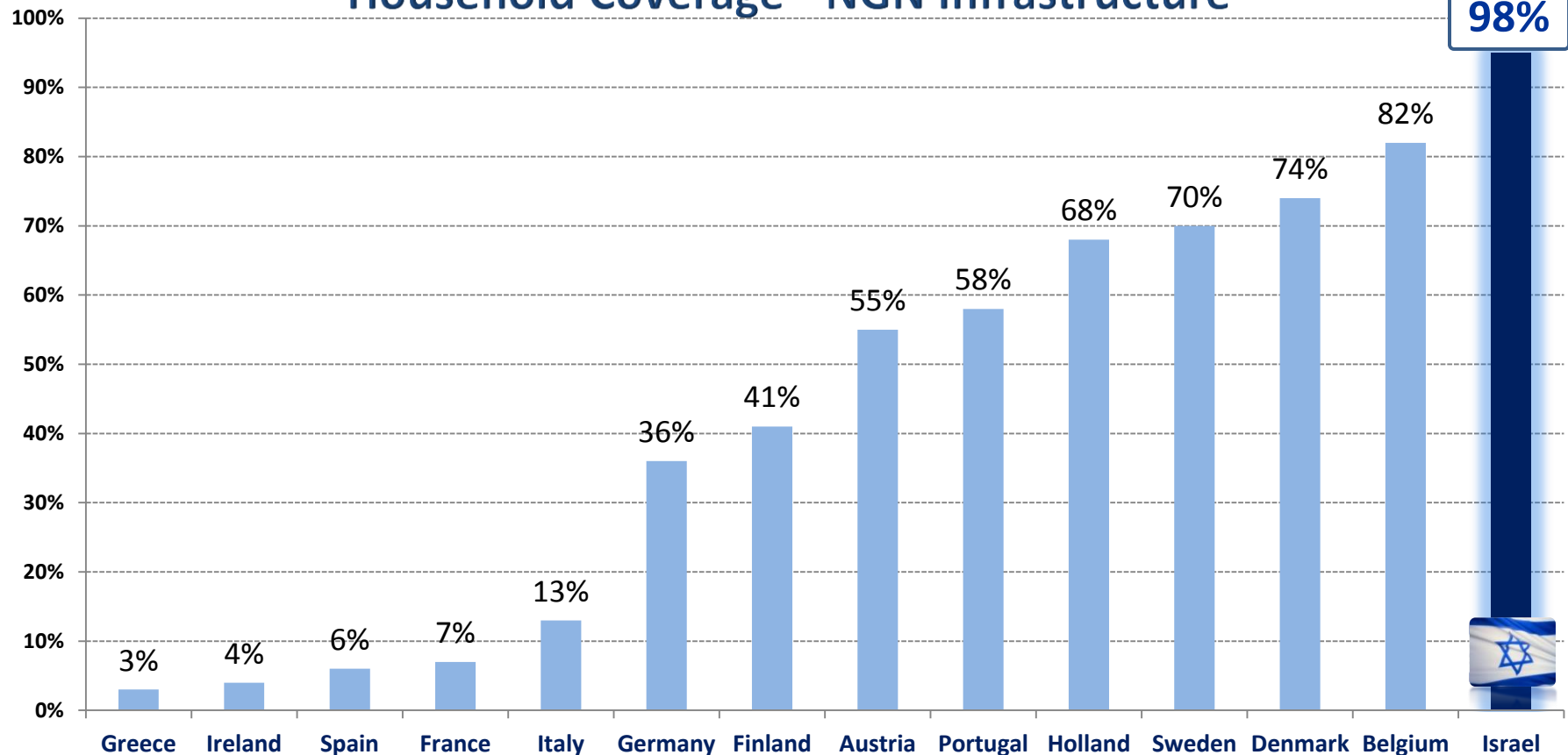


**Bezeq is uniquely positioned as the dominant provider of the full range of telecom products and services in Israel**

# 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

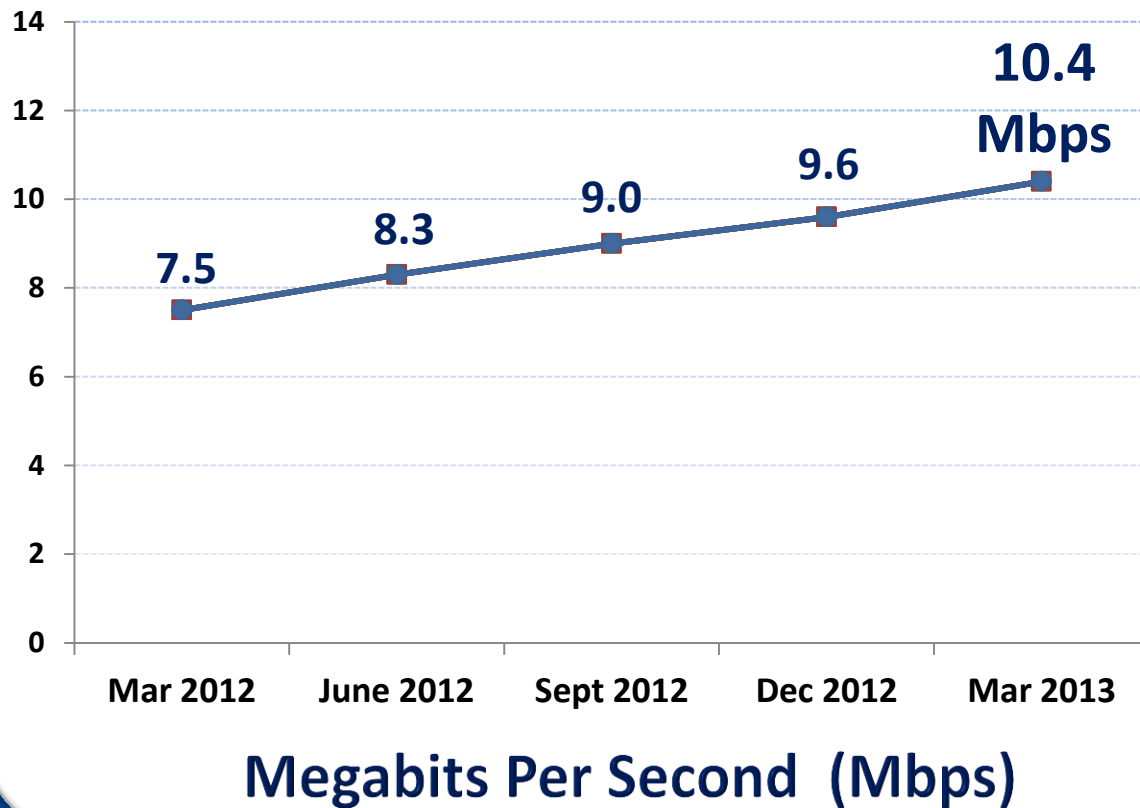
## Household Coverage - NGN Infrastructure



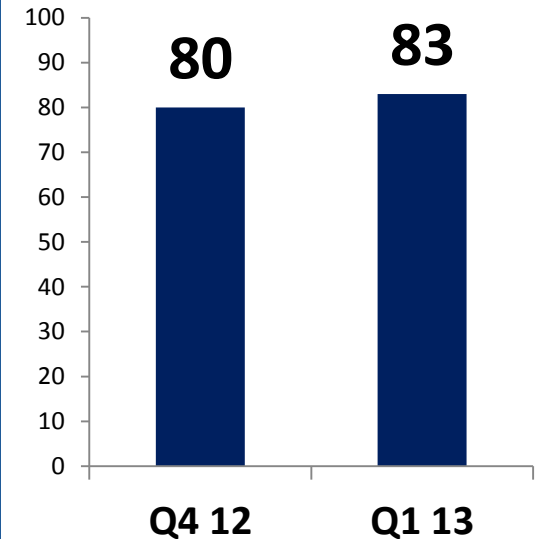
Note: Analysis as of December 2011. Bezeq data as of Dec 2012

# NGN Increasing Average Broadband Speeds

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



Broadband Internet ARPU (NIS)



**NGN**  
Next Generation Network

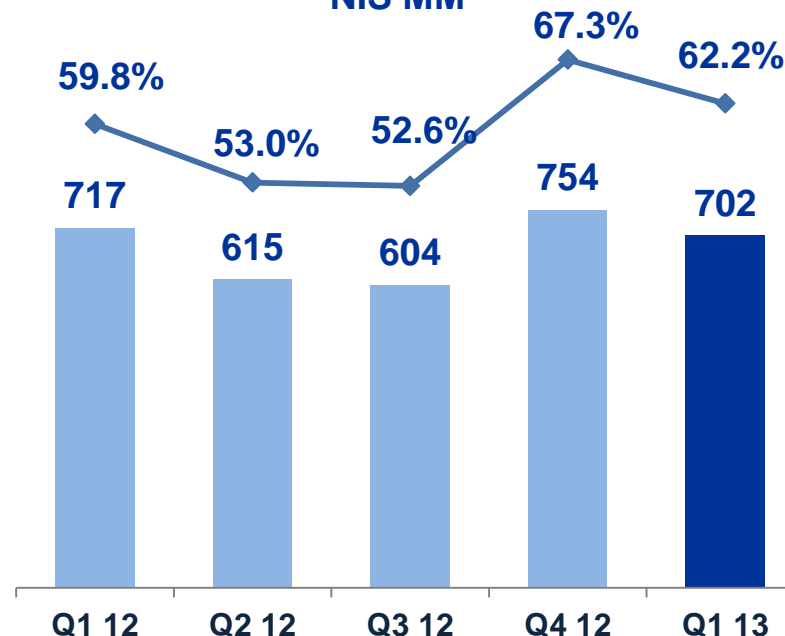


# Fixed Line – Revenue & EBITDA

Fixed Line Revenue  
NIS MM



Fixed Line EBITDA  
NIS MM



- Revenue in Q1 2013 declined 5.8% Y-o-Y mainly due to a decrease in telephony revenues.
- EBITDA in Q1 2013 declined 2.1% Y-o-Y to NIS 702 million. EBITDA margin increased to 62.2% compared to 59.8% in the year ago period.



**Telephone**

**Cellular**



- 2.74 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

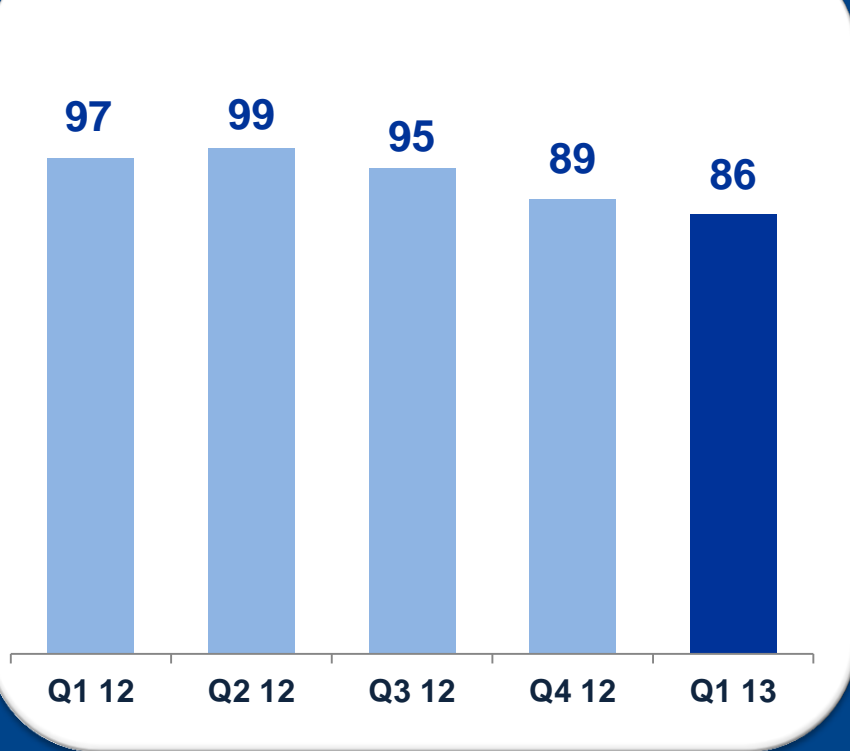


- Pelephone's HSPA was honored with the accolade of offering the highest average iPhone speed among 104 wireless carriers worldwide.

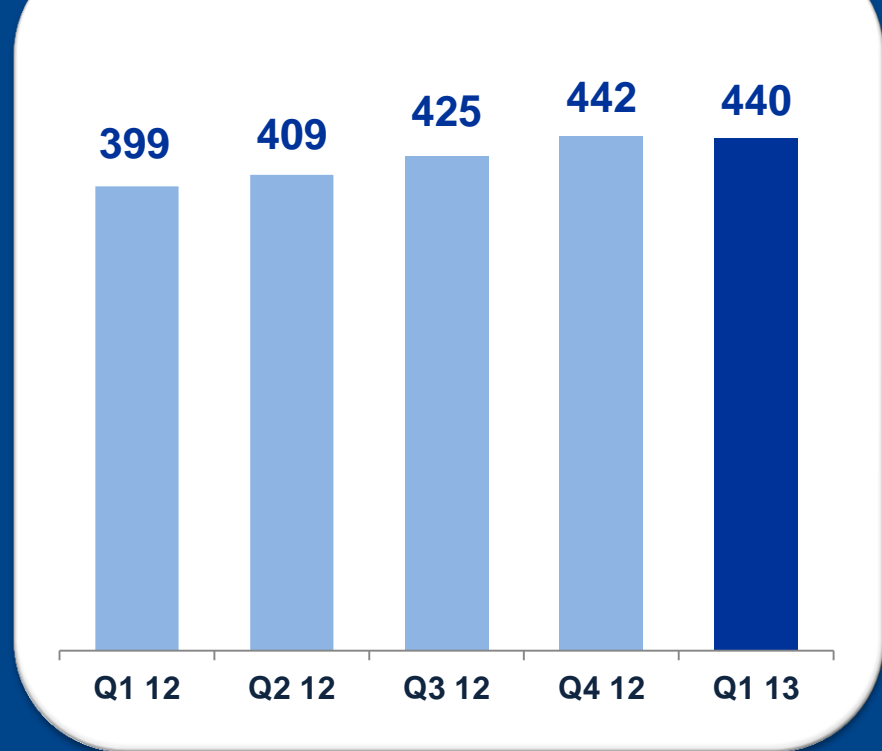
- Ookla Net Metrics

# Telephone KPIs

ARPU (NIS)



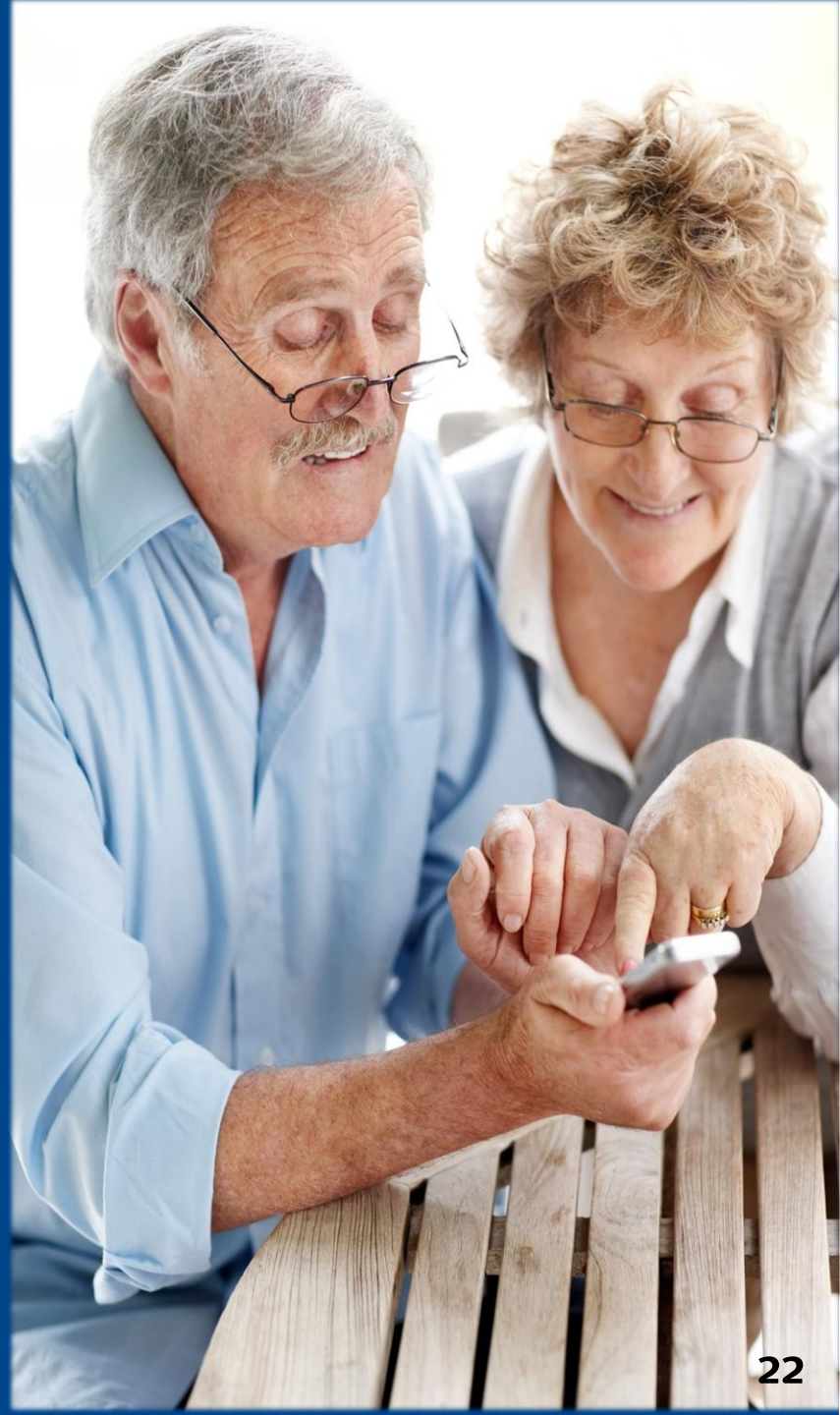
Minutes of Use (MOU)



- ARPU decreased in Q1 2013 due to a reduction in tariffs as a result of increased competition
- MOU stabilized sequentially in Q1 2013 at 440 minutes

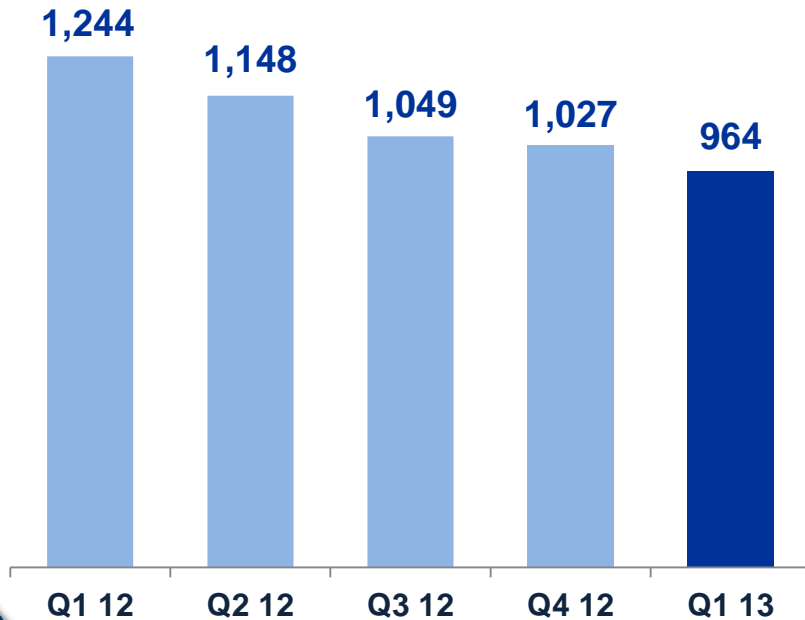
# Cellular Competitive Environment

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

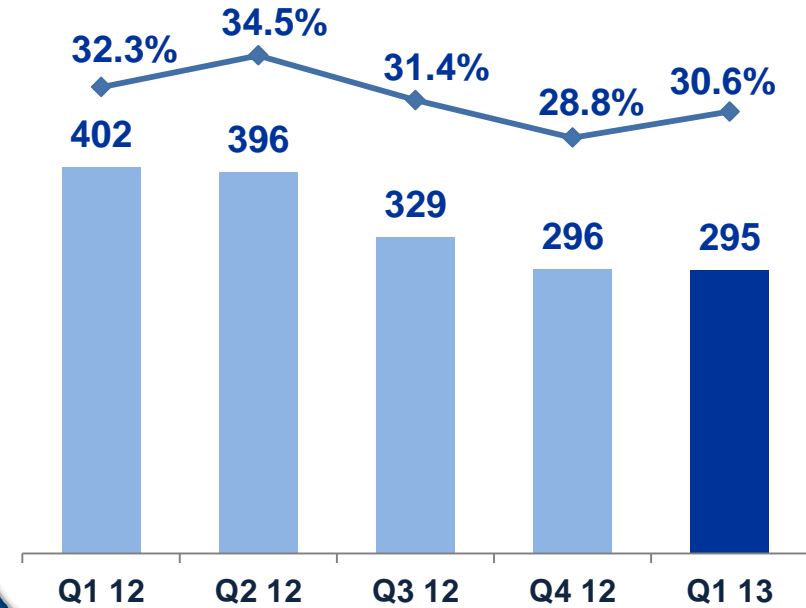


# Pelephone – Revenue & EBITDA

Pelephone Revenue  
NIS MM



Pelephone EBITDA  
NIS MM



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



Bezeq  
International

**ISP / ILD / ICT**



# Bezeq International

## Israel's Leading Internet & International Telecom Provider

### ISP



- Leading broadband Internet service in Israel
- Approximately 39% 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

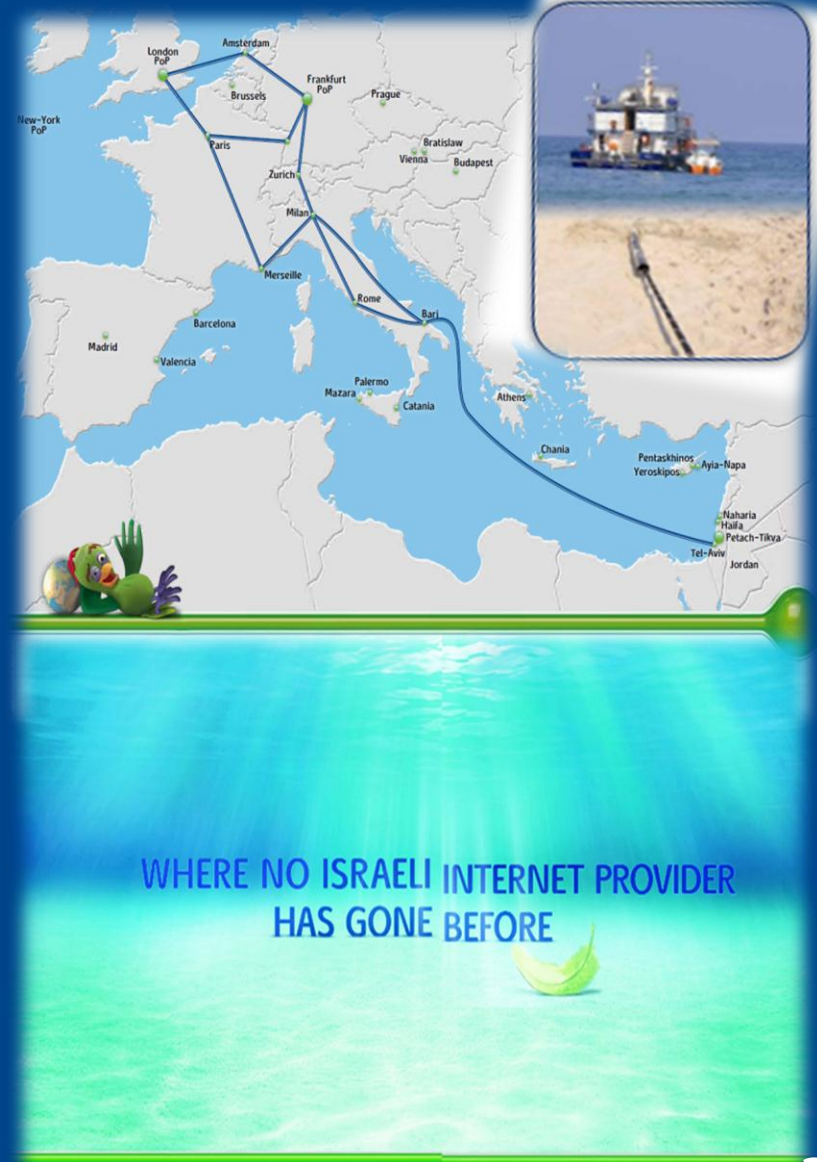


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

# 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

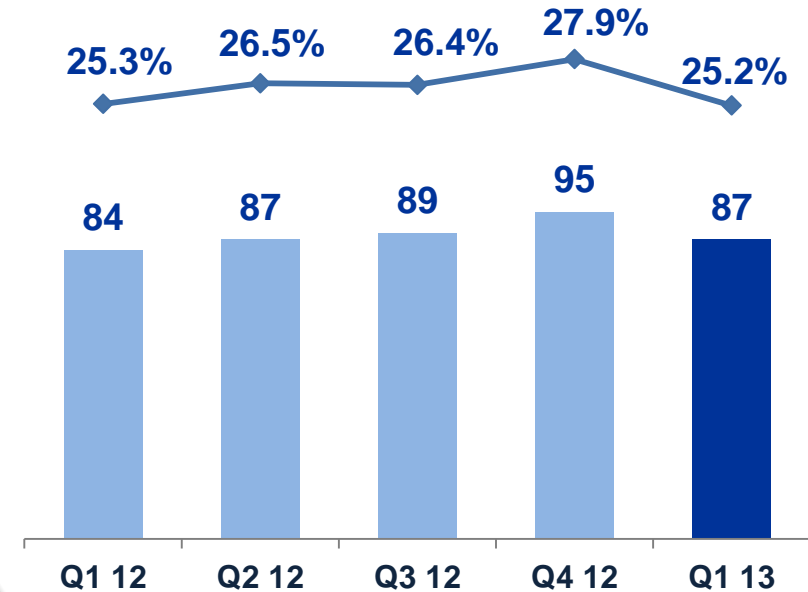


# Bezeq International – Revenue & EBITDA

Bezeq International Revenue  
NIS MM



Bezeq International EBITDA  
NIS MM



- Revenue in Q1 2013 increased 4.0% Y-o-Y to NIS 346 million due to growth in Internet services delivered across the submarine cable and NGN as well as increased revenue from the transfer of calls from international telecom operators (hubbing).
- EBITDA in Q1 2013 reached NIS 87 million, an increase of 3.9% Y-o-Y for an EBITDA margin of 25.2% due to growth in Internet revenues as well as in the number of Internet subscribers



**Satellite  
Television**



## A leader in designing the leisure & entertainment experience in Israeli home media

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*Israel's sole satellite provider and first  
television provider to offer digital  
broadcasts and interactive services*

- *Nationwide satellite availability*
- *578,000 subscribers*
- *39% market share*
- *142 channels of content*
  - *Including 39 Yes branded channels*

# Yes – Advanced Services

**yes.Max TOTAL**  
Max + HD + VOD

**yes.VOD**

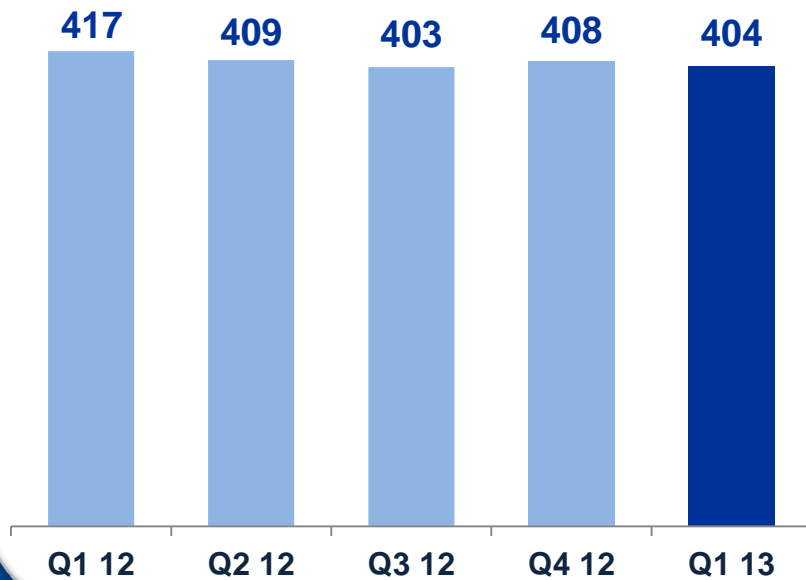


## Ultimate Viewing Experience

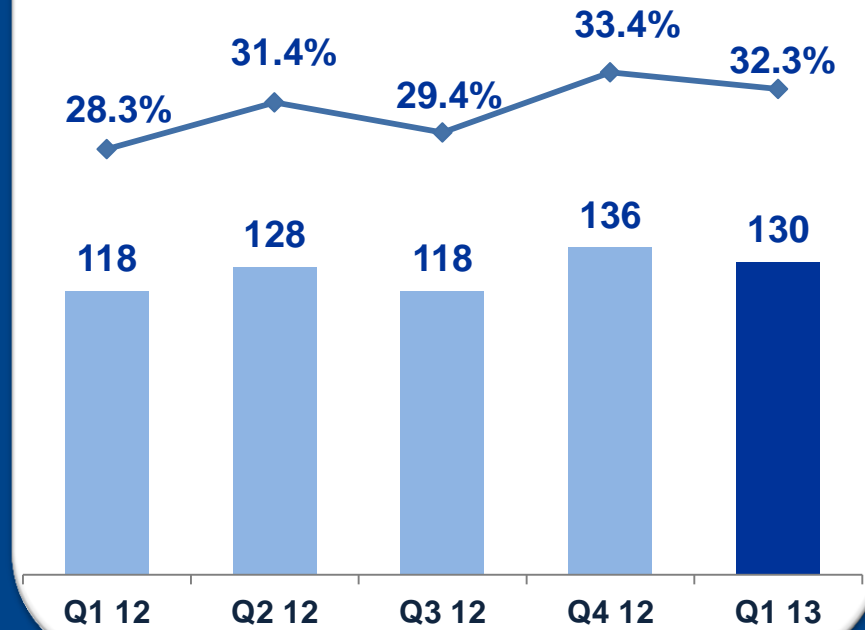
- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

# Yes – Revenue & EBITDA

Yes Revenue  
NIS MM



Yes EBITDA  
NIS MM



- Revenue in Q1 2013 totaled NIS 404 million, a decrease of 3.2% Y-o-Y due to one-time sales of content in the corresponding quarter as well as a decrease in the number of subscribers
- EBITDA in Q1 2013 amounted to NIS 130 million, up 10.4% Y-o-Y primarily due to lower marketing, content and 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](http://www.bezeq.co.il)