



BEZEQ
(TASE: BEZQ)

Investor Presentation
FY 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 9.06 billion
- Diversified portfolio in all TMT sub-markets
 - 2.21 million fixed customer lines
 - 2.59 million cellular customer lines
 - 1.36 million broadband lines
 - 632,000 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 nationwide 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
- Deregulation 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 to cover 1.3M households by end of 2015

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



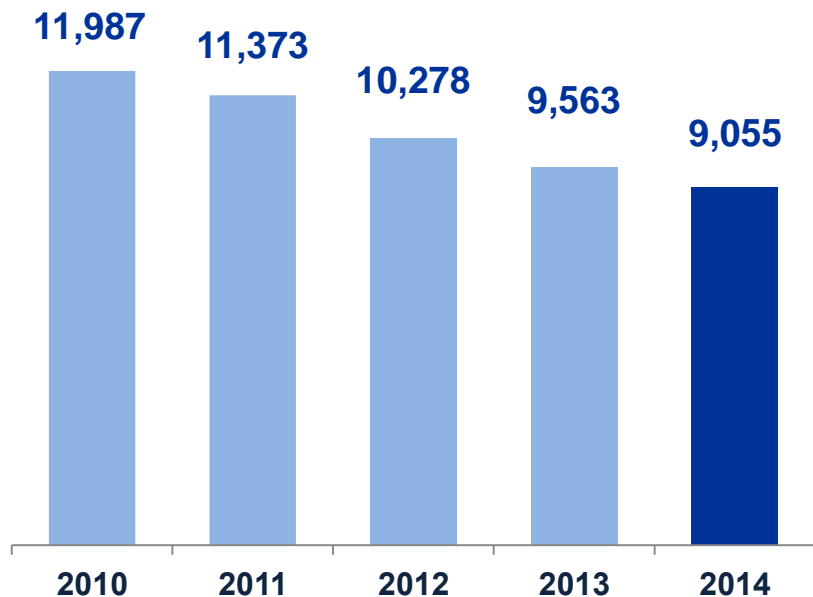
- Direct ownership of modern and high-speed submarine cable system deployed between Israel and Europe
- Potential for ongoing capacity increase at low incremental cost



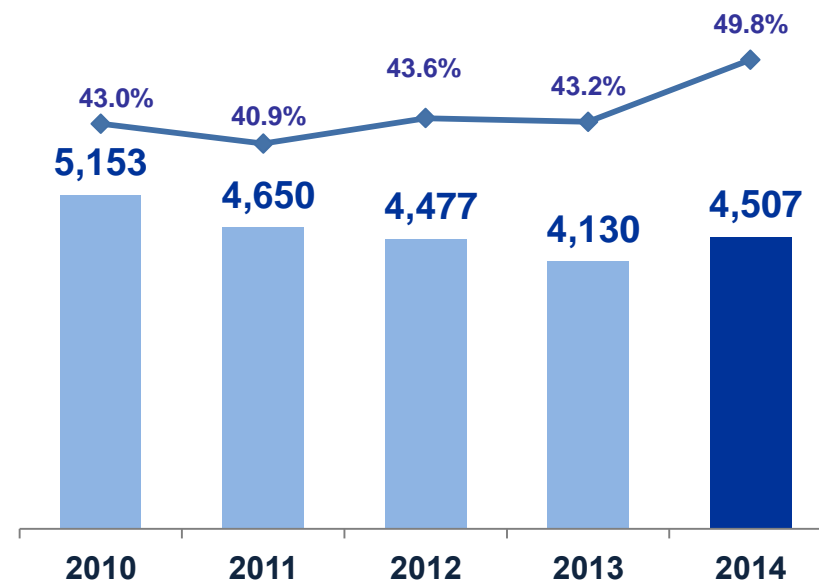
Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue
NIS MM

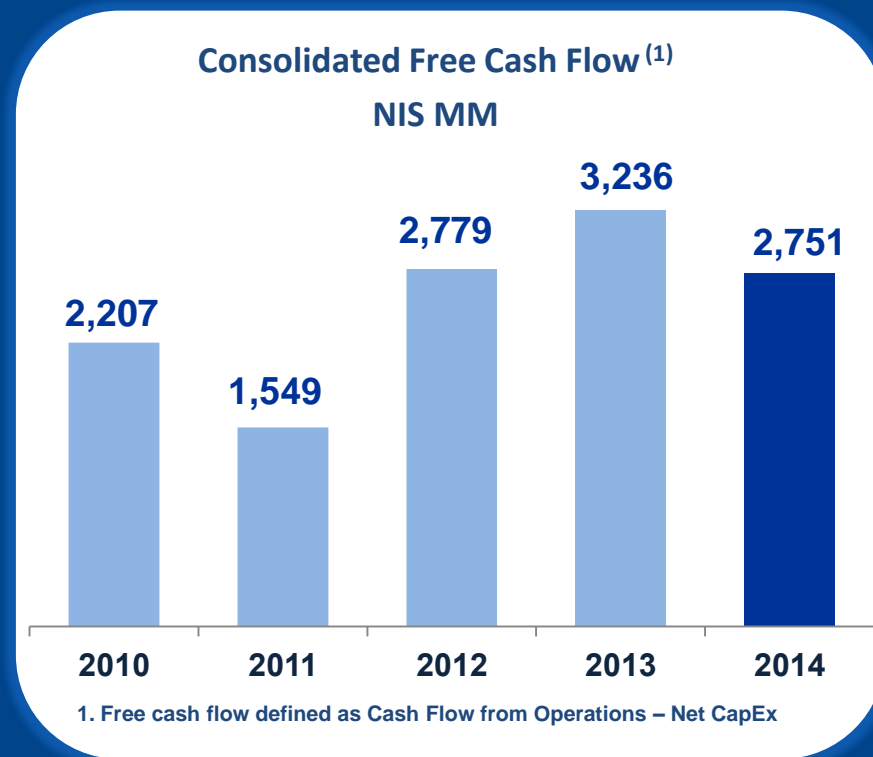
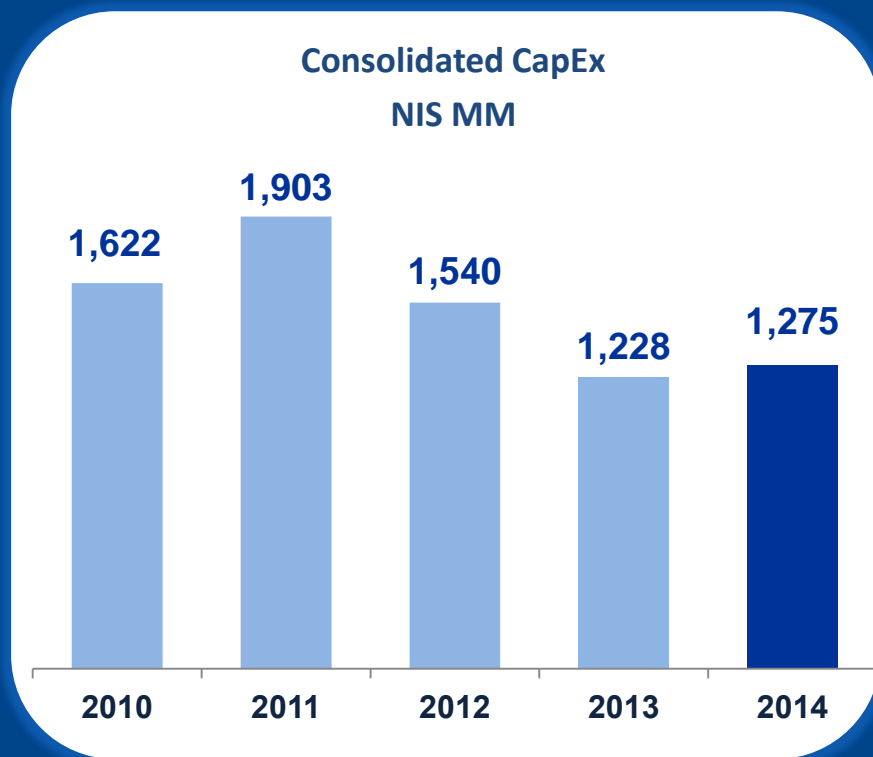


Consolidated EBITDA
NIS MM



- Consolidated 2014 revenue decreased 5.3% compared with 2013 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 influenced by a decrease in fixed call termination rates.
- 2014 EBITDA increased 9.1% y-o-y, primarily due to the one-time gain from the sale of Yad2.

Bezeq Group – CapEx & Free Cash Flow



- CapEx increased 3.8% in 2014 versus the prior year, impacted by the continued nationwide rollout of Bezeq Fixed Line's fiber optic network along with investments for the enhancement of the Next Generation Network.

Bezeq Group – 2015 Guidance

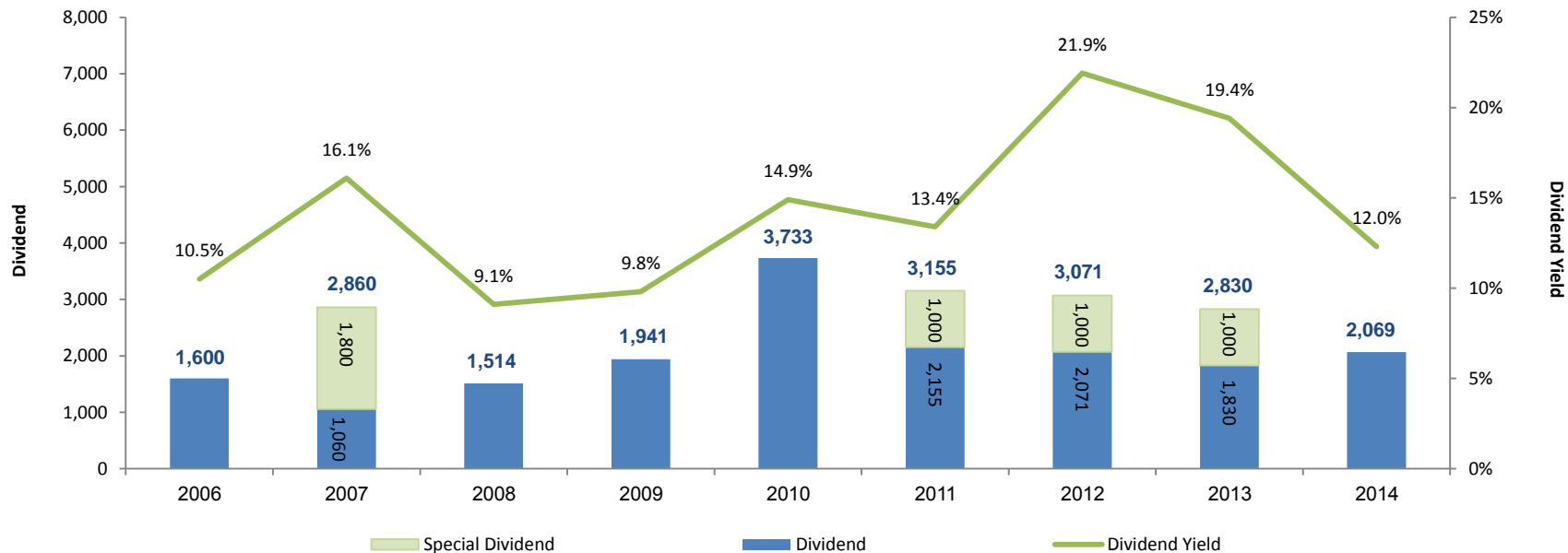
Net profit attributable to shareholders:	Approximately NIS 1.5 billion
EBITDA:	NIS 4.2 billion
Free cash flow:	Approximately NIS 2.0 billion

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:

- a. 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 execution of a transaction for the acquisition of all of the holdings of Eurocom DBS in yes. However, the forecasts do include the effects of the Company's increase in its shareholding in yes to approximately 58.4% after the exercise of its option of 8.6% in yes shares as of the date of increase in share ownership (approximately 9 months).
- 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 2015. 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)



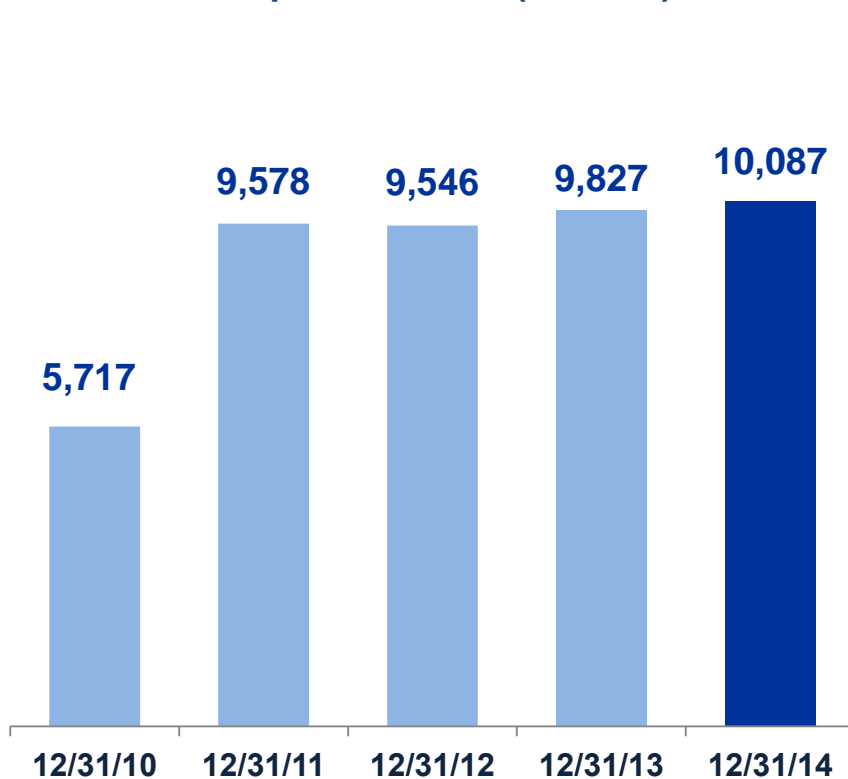
Dividend Policy: 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis

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

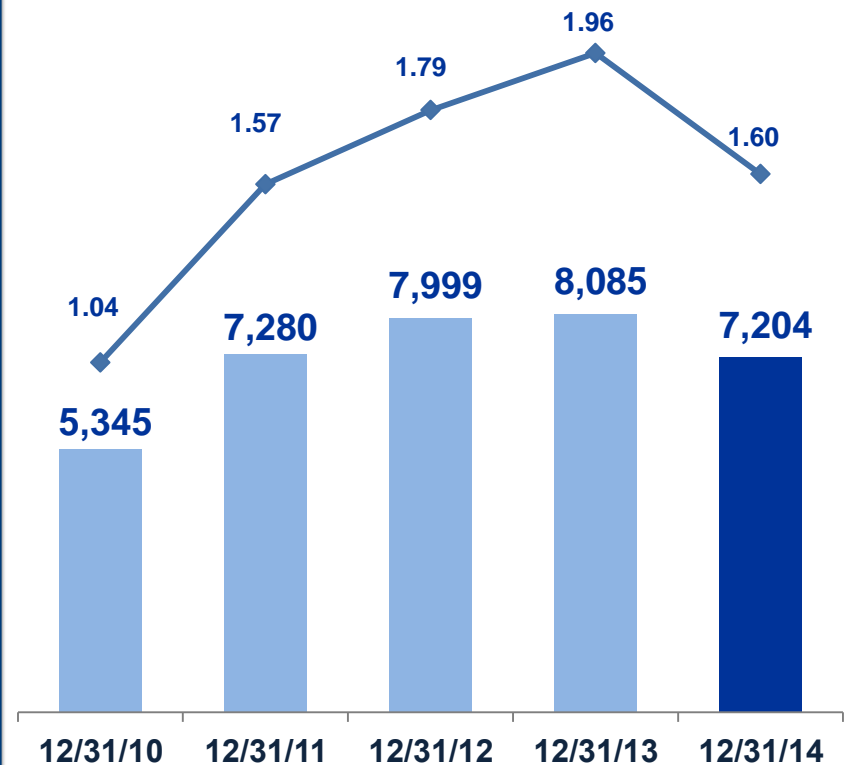
The Board of Directors recommended the distribution of 100% of net profits for the second half of 2014 as a cash dividend to shareholders of NIS 844 million (approximately NIS 0.31 per share). The semi-annual dividend, which is subject to shareholder approval, would be payable on May 27, 2015. The ex-dividend date is May 14, 2015.

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



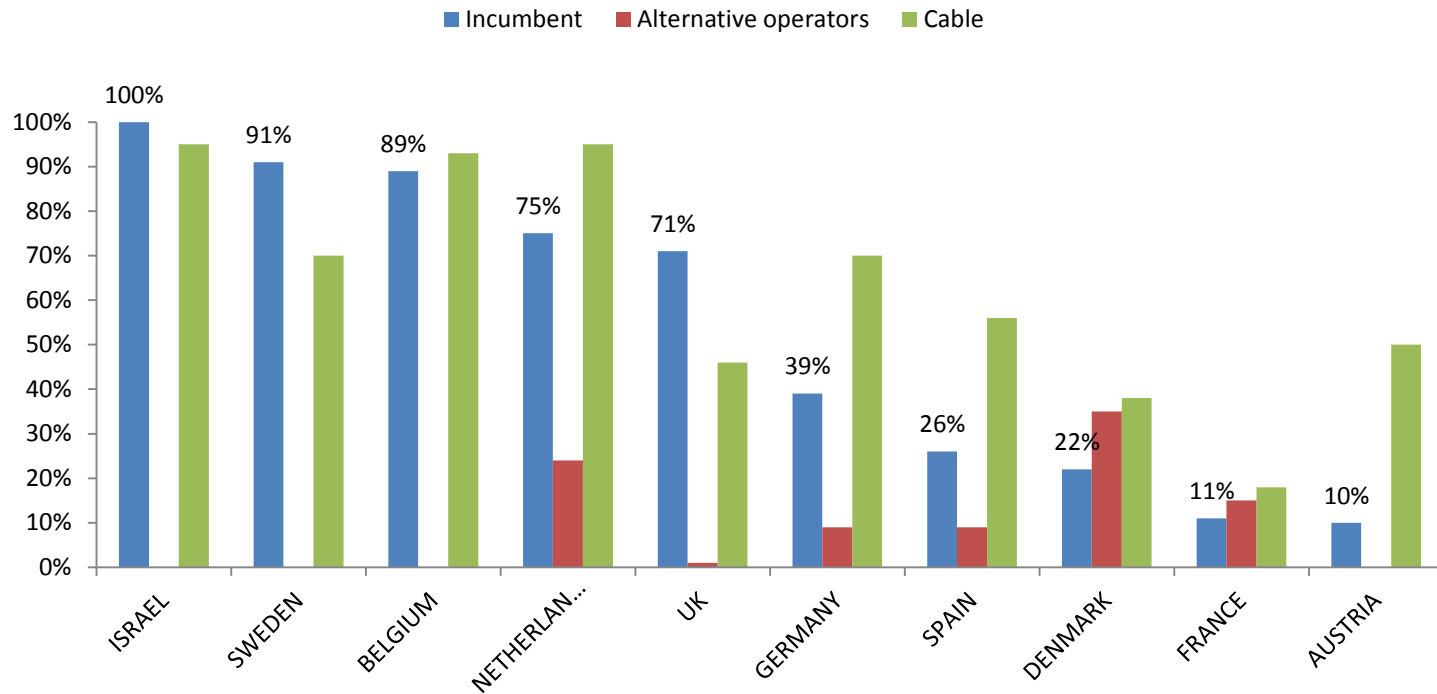
Bezeq is uniquely positioned as the leading provider of the full range of high quality telecom products and services in Israel

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 an 8% 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

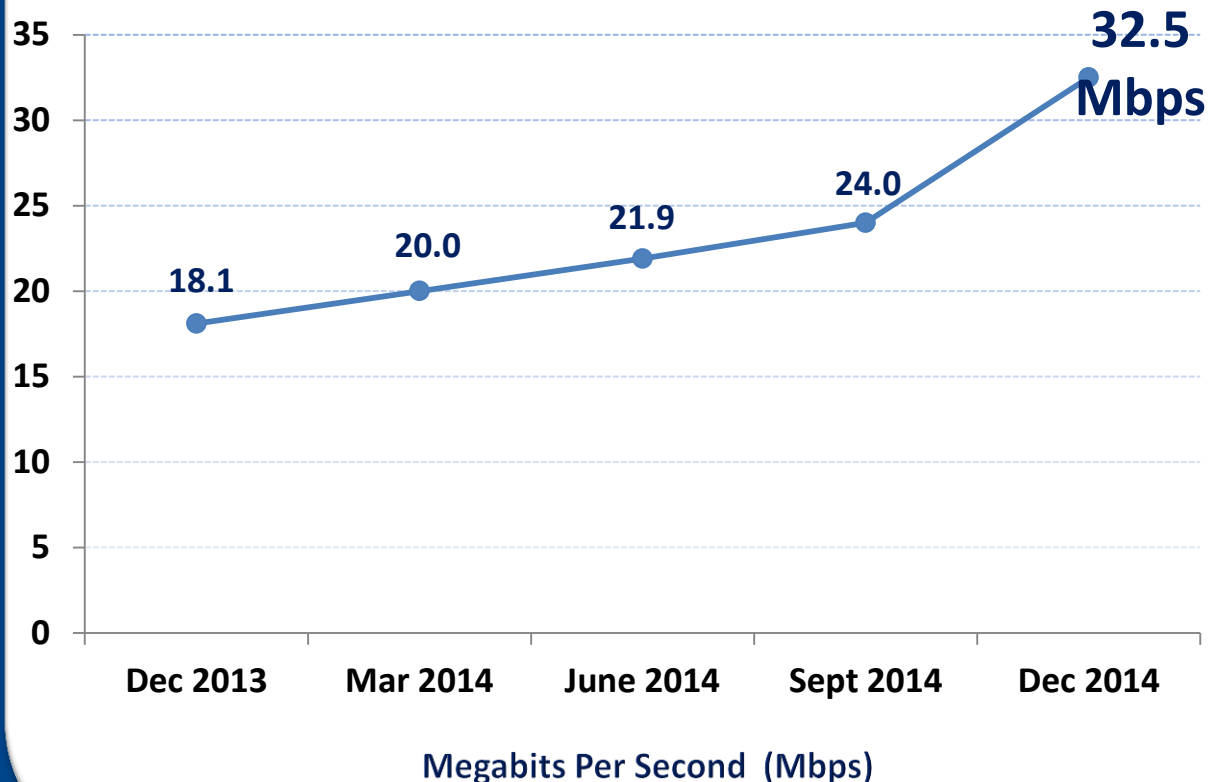
Household Coverage



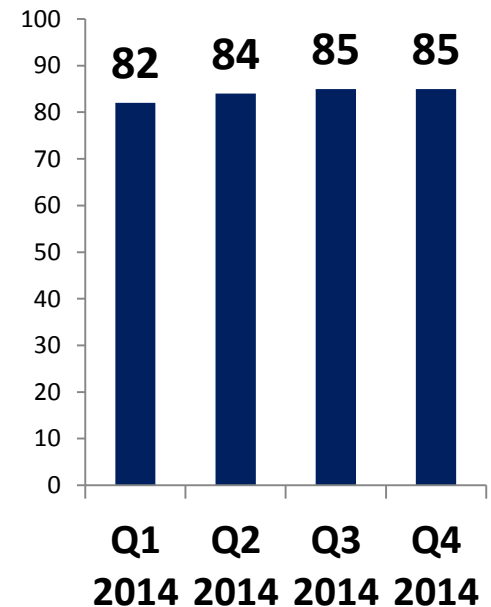
Source: Cullen Research, November 2014

NGN enables ongoing increases in bandwidth and ARPU growth

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

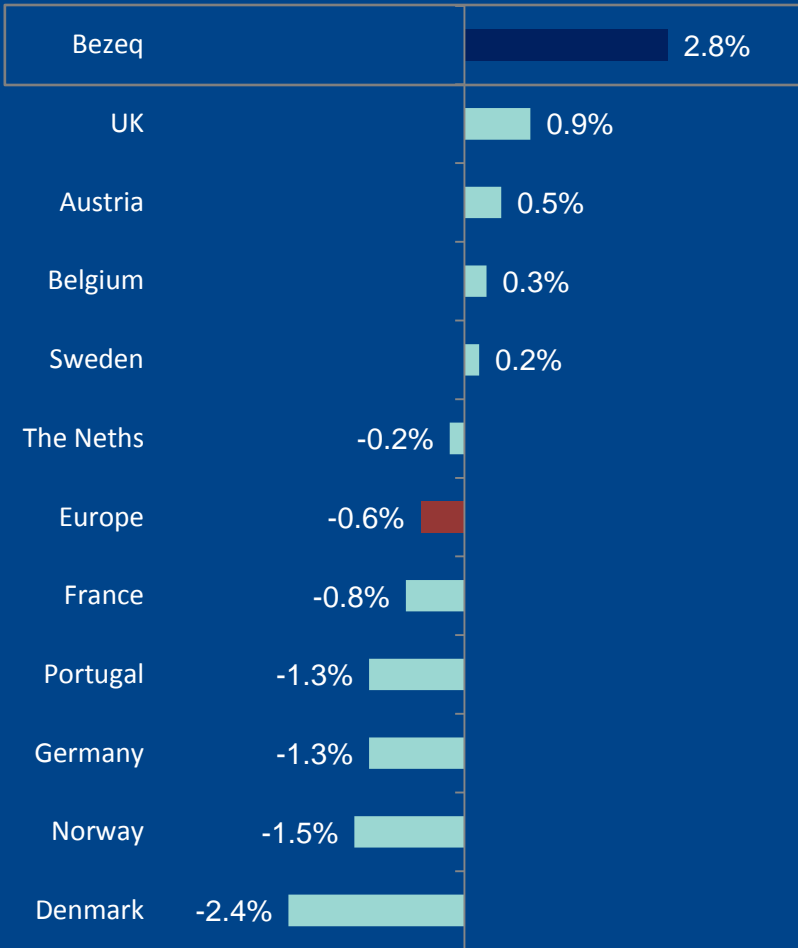


Broadband Internet ARPU (NIS)

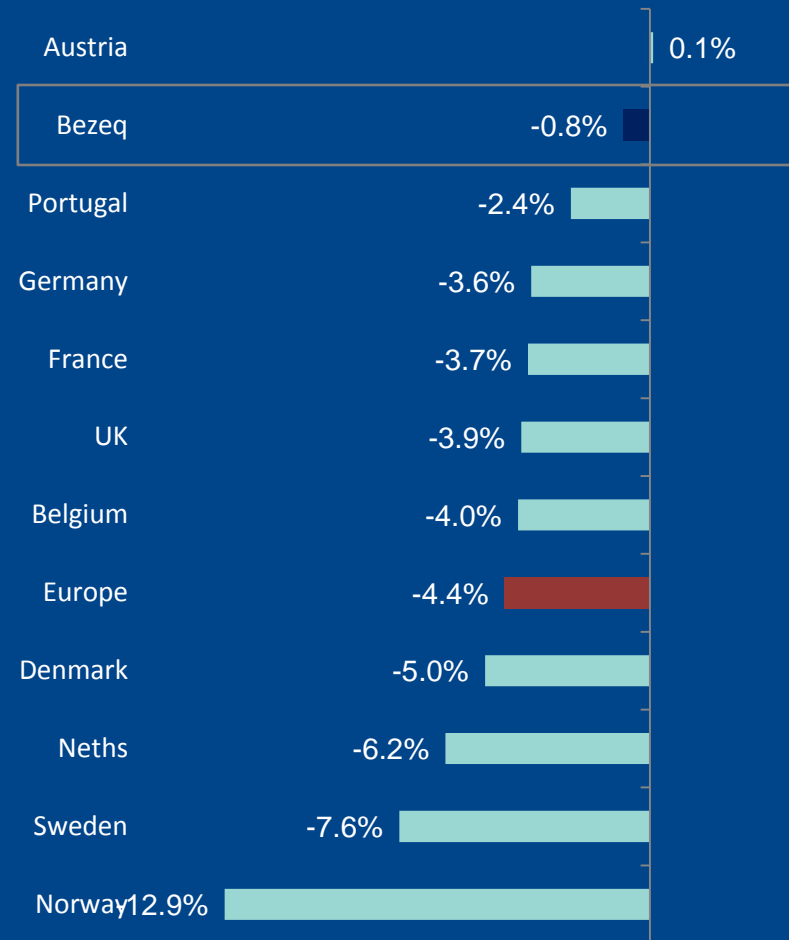


Bezeq Fixed-Line delivers high performance compared to global benchmark indicators

Incumbent rolling 12 month fixed broadband market share gains (Q3-14)



Incumbent retail wireline line loss by operator (Q3-14 YoY change %)



FTTB deployment launched in 2013



**September
2009**

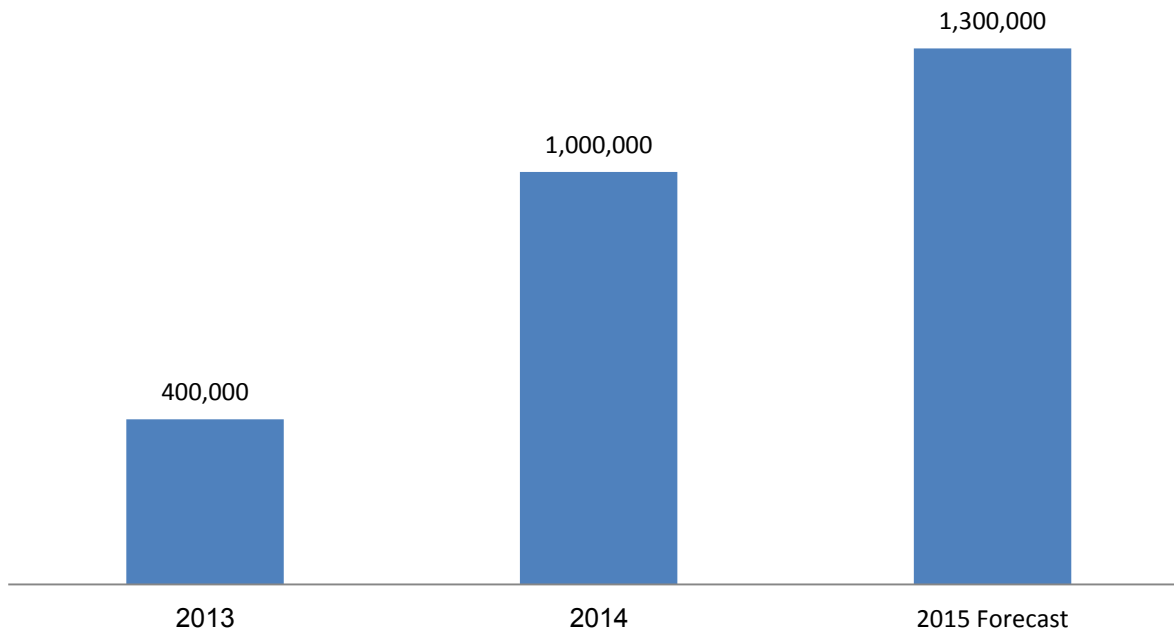


Fiber-to-the-Building (FTTB)

2013 to present

Fiber-to-the-Building Rollout

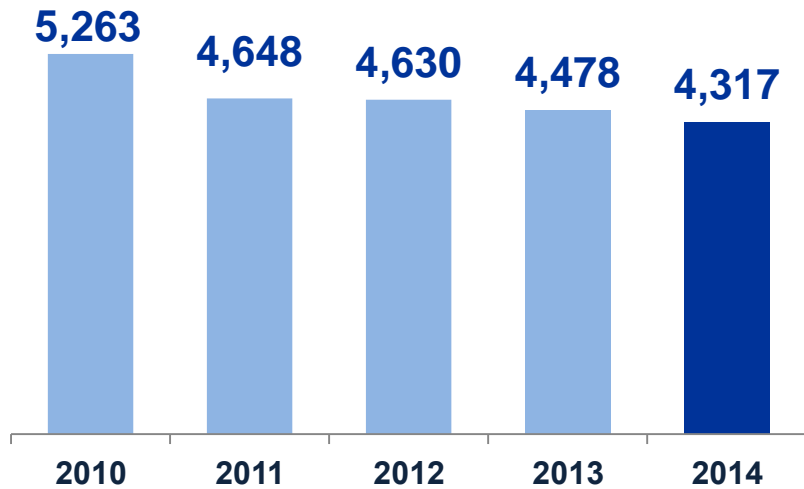
FTTB Homes Passed



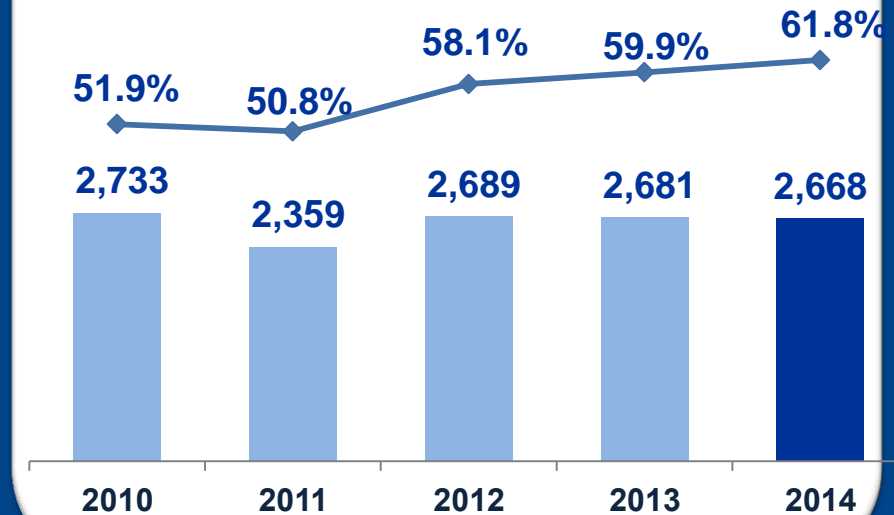
**Bezeq Fixed Line
expects to reach an
additional 300k
homes in 2015
representing a total of
1.3m homes passed or
approximately 60% of
the Israeli population**

Bezeq Fixed-Line – Revenue & EBITDA

Bezeq Fixed-Line Revenue
NIS MM



Bezeq Fixed-Line EBITDA
NIS MM



- After adjusting for the effects of the reduction in fixed call termination rates, revenues in 2014 were in line with 2013.
- Stability in y-o-y EBITDA was achieved due to the reduction in operating expenses as a result of the implementation of efficiency efforts, among other factors.



Pelephone

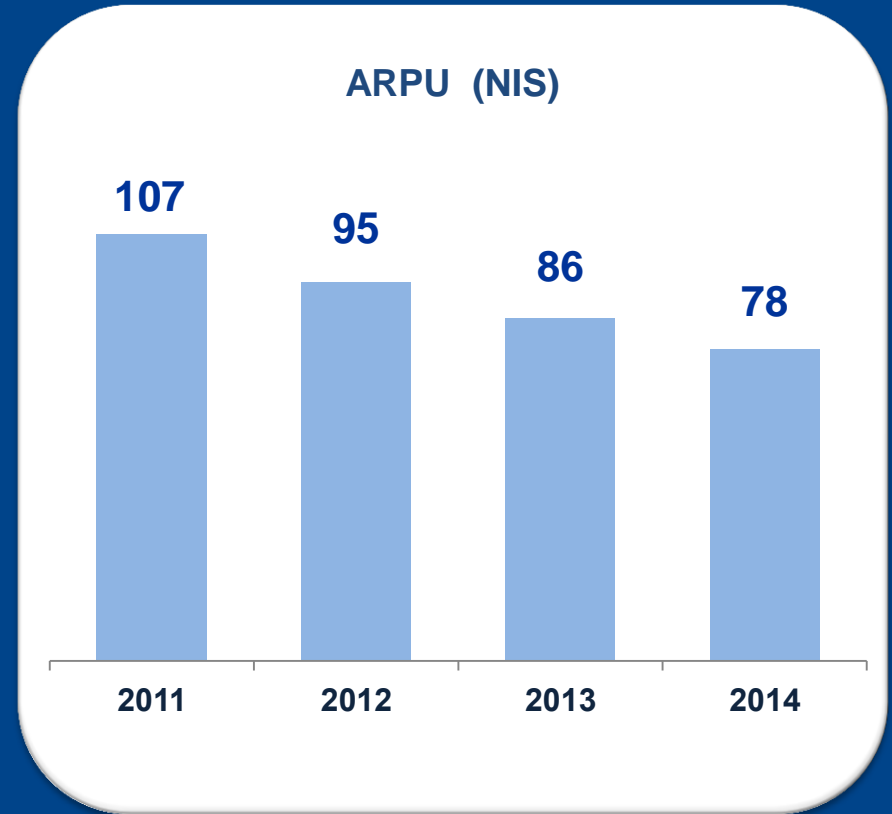
Cellular



- **2.59 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**



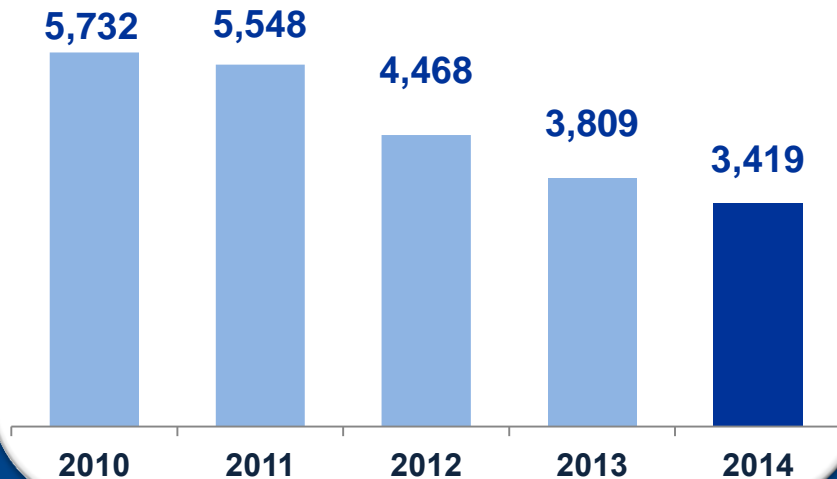
Telephone KPIs



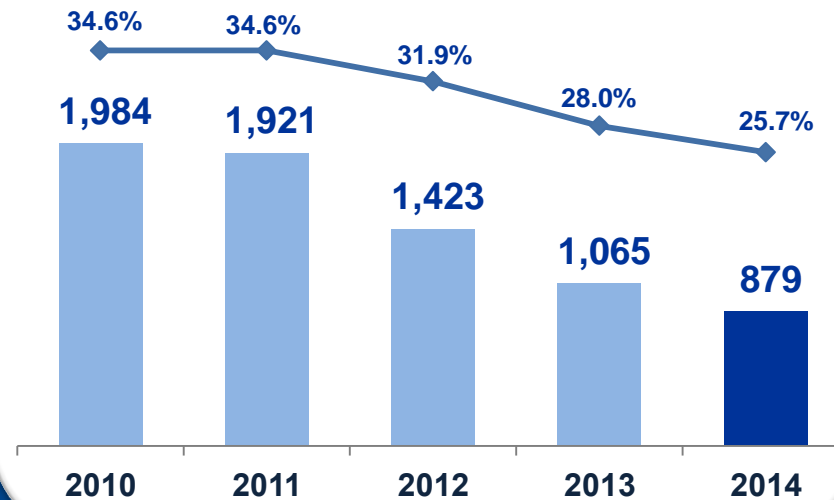
- Cellular subscribers as of December 31, 2014 totaled 2.59 million, a decrease of 56,000 from the prior year. Telephone had the lowest churn in 2014 among Israeli incumbent cellular operators.
- ARPU in 2014 decreased 9.3% due to tariff erosion.

Pelephone – Revenue & EBITDA

Pelephone Revenue
NIS MM



Pelephone EBITDA
NIS MM



- Revenue and EBITDA declined 10.2% and 17.5% respectively y-o-y driven by increased competition in the cellular market and the transition of existing customers to lower priced plans.



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
- 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



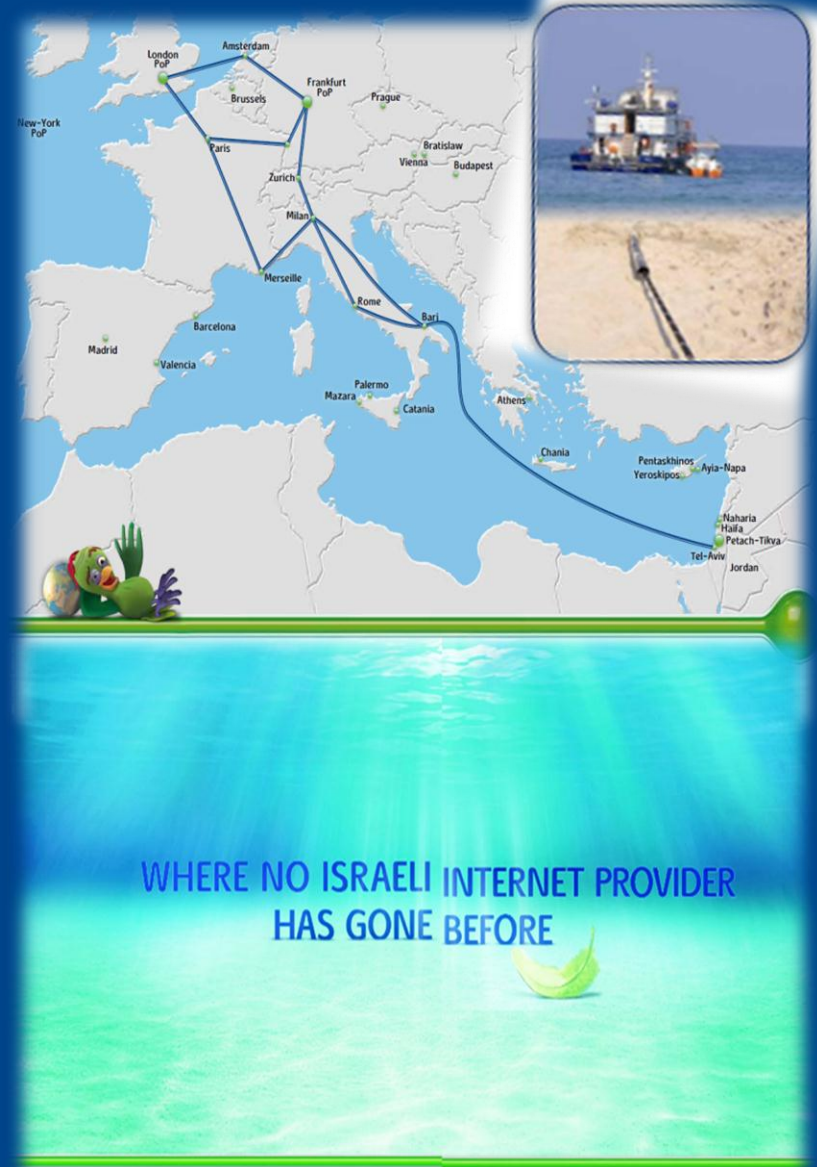
- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

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

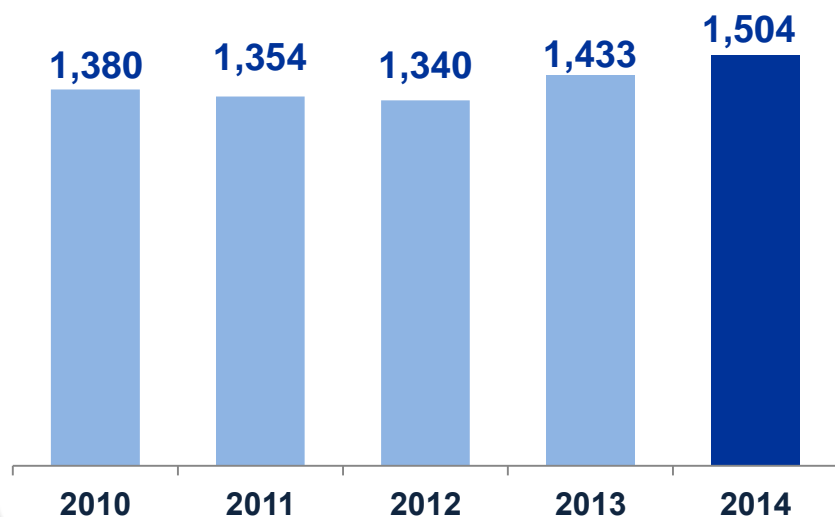
Bezeq International's submarine cable provides a platform to:

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

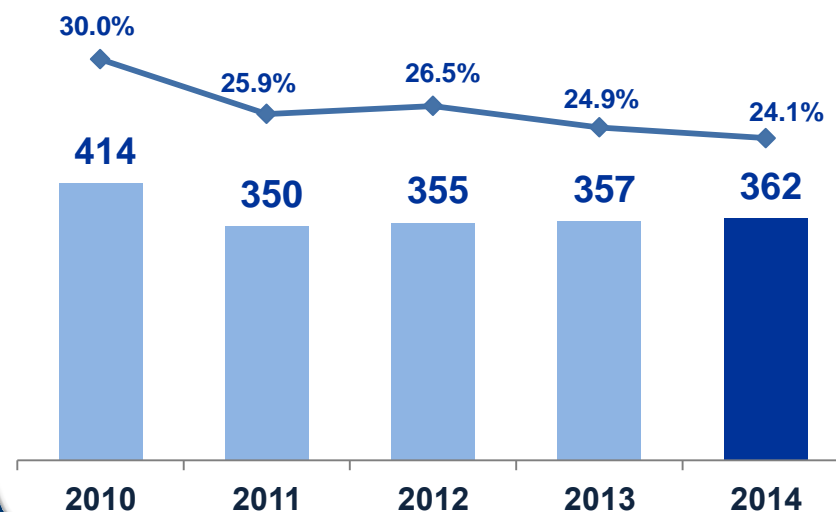


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenue in 2014 increased 5% y-o-y to a record NIS 1.5 billion due to increased revenues from business communications and cloud services as well as successful leveraging of the submarine cable infrastructure.
- EBITDA in 2014 rose 1.4% y-o-y to a record NIS 362 million, for an EBITDA margin of 24.1%.



**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*



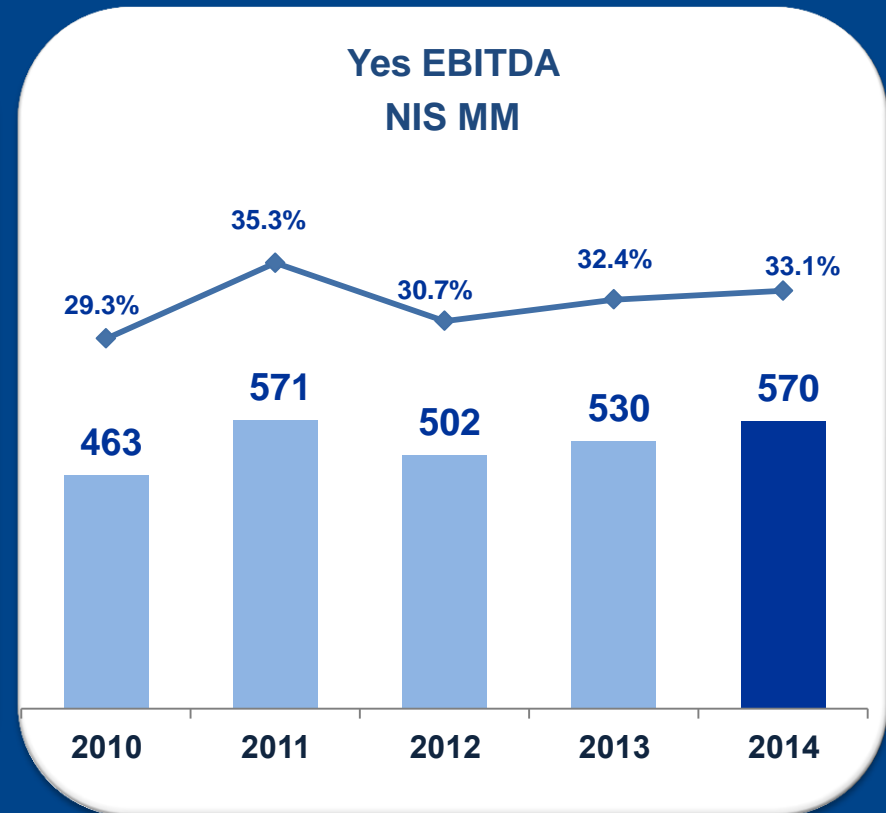
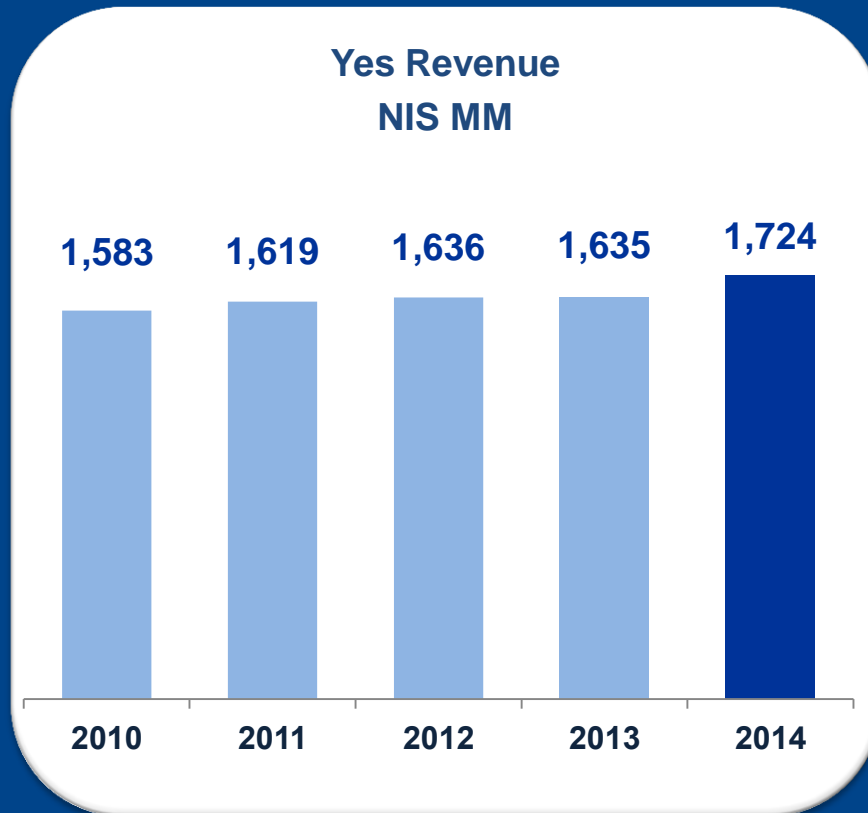
- Enables access to recordings from another set-top box



- 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



- Revenues in 2014 increased 5.4% y-o-y to NIS 1.72 billion versus the prior year, supported by the addition of 31,000 subscribers.
- EBITDA in 2014 increased 7.5% to NIS 570 million compared with 2013, primarily due to subscriber levels rising to a record 632,000 subscribers. EBITDA margin increased to 33.1%.

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)**

Confidently Facing the Future

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

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 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

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

Maintaining quality personnel and strong management

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