

## Due Diligence and Valuation Report

Arrowhead Code: 54-02-02  
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 Fair share value bracket: US\$13.13 and US\$15.18  
 Share price (25 March 14): US\$10.11<sup>i</sup>

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Company: Internet Gold – Golden Lines Ltd.  
 Ticker: NASDAQ / TASE: IGLD  
 Headquarters: Ramat Gan, Israel  
 CEO: Mr. Doron Turgeman  
 Principal Financial Officer: Mr. Ehud Yahalom

Website: [www.igld.com](http://www.igld.com)

### Market Data

52-Week Range:	US\$2.77– US\$15.91 <sup>ii</sup>
Average Daily Volume:	9,027 <sup>iii</sup>
Market Cap. (25 March 14):	US\$194.1 MM

### Financial Forecast (in NIS)\* (FY ending - Dec)

NIS	'14E	'15E	'16E	'17E	'18E	'19E	'20E
High NI B	0.23	0.26	0.28	0.33	0.40	0.49	0.58
High EPS	12.05	13.29	14.83	17.02	20.98	25.37	30.40
Low NI B	0.20	0.22	0.23	0.27	0.34	0.41	0.50
Low EPS	10.56	11.47	12.06	14.13	17.77	21.58	25.86

\* Attributable to Shareholder

**Company Overview:** Based in Israel, Internet Gold – Golden Lines Ltd (hereinafter referred to as "IGLD") is a telecommunication holding company with its primary holding of 68% in B Communication Ltd (hereinafter referred to as "BCOM") which in turn has a controlling interest in Bezeq - The Israel Telecommunication Corporation Ltd (hereinafter referred to as "Bezeq"), which is one of the largest telecommunication groups in Israel. BCOM's sole asset is its controlling stake of 31% in Bezeq as on February, 2014. Bezeq is engaged in providing **1)** Domestic Fixed line Services, Internet infrastructure and access services, Transmission and data communication **2)** Cellular services **3)** Internet access services (ISP), International Communication Services and NEP (Network End Point) Services **4)** DBS – Multi-channel digital satellite television (YES brand) - YES Pay TV is the only provider of multi-channel television broadcasts via satellite **5)** Others - This segment covers operations of Internet portals such as Walla!, one of the leading websites in Israel, Walla shops which is Israel's largest e-commerce platform and Bezeq OnLine, which specializes in setting up, managing, and operating call center services.

**FY2013:** For FY2013, consolidated revenue for IGLD declined by 7% Y-o-Y to NIS9.6 B. The operating income grew by 4.6% to NIS2 B, due to decline in depreciation as well as General and Operating expenses by about 14.7% and 10.5% respectively. Net Profit attributable to Shareholders was NIS11 MM in FY2013 versus a loss of NIS37 MM in FY2012.

### Bezeq to Drive Growth

Arrowhead is updating coverage on IGLD with a fair value bracket of US\$13.13 (Low-Bracket estimate) and US\$15.18 (High-Bracket estimate).

**Key Highlights:** **(1)** IGLD's experienced management has displayed the ability to withstand and adapt to sector changes; **(2)** IGLD's credit rating upgrade reflects positively on financial strength of the company **(3)** Strong presence across the Telecommunication spectrum; **(4)** Bezeq owns most of the operating infrastructure in its area of operation; **(5)** One-of-its-kind Fixed line NGN (Next Generation Network) network for the ultra-speed Internet; **(6)** Telephone demonstrated higher customer satisfaction as it witnessed lower increase in churn rate as compared to its peers during the time period 2011-13 despite intense competitive pressure<sup>iv</sup>; **(7)** Bezeq International through its submarine cable network improved customer services as well as increased its revenue stream; **(8)** During the year 2013, IGLD improved its liquidity by receiving first time dividend from BCOM and Capital raised through new series of debenture on March 6, 2014. This improvement in cash will aid them to fully service their debt till 2017.

**Key Risks:** **(1)** Any decline in controlling interest below 30% will lead to non-compliance with the "Control Permit" norms and result in loss of authority in Bezeq. **(2)** IGLD is a leverage holding company which through BCOM holds only one asset and due to this is fully exposed to the Israeli communication market **(3)** Ministry of Communications has released a list of services which the infrastructure owners will be obliged to offer as wholesale services to service providers which is likely to result in an increase in competition in the coming years<sup>v</sup>.

**Valuation and Assumptions:** On the basis of due diligence and valuation estimates, Arrowhead believes that IGLD's fair share value lies in the US\$13.13 to US\$15.18 bracket<sup>vi</sup>. We have valued IGLD using the Discounted Cash Flow (DCF) method to arrive at the per share value of the Company.

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## 1. Summary and Outlook

We are updating coverage on Internet Gold – Golden Lines Ltd, headquartered in Israel, which is the holding company of B Communication (68% Stake) whose sole asset is 31% controlling interest in Bezeq -The Telecommunication Company Ltd, one of the largest telecommunication groups in Israel.

### Key Highlights:

- (1) IGLD's strength lies in its experienced management team led by Mr. Shaul Elovitch, Chairman of Eurocom, that has prepared the company to withstand and adapt to changes occurring in Israel's Telecommunication sector.
- (2) IGLD's credit outlook rating has recently been upgraded from 'Negative' to 'Stable' by Midroog, an affiliate of Moody's Investor services which reflect positively on the liquidity position and financial strength of the Company.
- (3) Bezeq's strong presence across the telecommunication spectrum (fixed line, broadband services, cellular services, and International services) gives the Company a competitive advantage.
- (4) Bezeq is one of the two groups in Israel that has its own infrastructure across the Telecommunication field in Israel in which it operates.
- (5) Bezeq's one-of-its-kind fixed line infrastructure comprises an NGN (Next Generation Network) – FTTC (Fiber to the Curb) network that offers ultra-speed Internet to cater to growing bandwidth requirements of its customers.
- (6) Bezeq through its NGN network has launched various ultra-speed Internet surfing packages ranging from 10 Mbps to 100 Mbps for its customers to experience high bandwidth rate at a lower price as compared to its peers. This is clearly reflected in its Broadband revenue that grew by a Compound Annual Growth Rate (CAGR) of 10.5% between 2008 and 2013.
- (7) Despite intense competition in cellular services, Pelephone has lost only 2.2% of its market share during 2011-13 as compared to much higher rates experienced by its peers, Cellcom (2.6%) and Partner (2.9%).
- (8) Bezeq International through its submarine cable network has improved customer experience through increased capacity and Internet speeds, and also simultaneously enlarged its revenue stream through additional capacity and services.
- (9) During the year 2013, IGLD improved its liquidity by receiving dividend for the first time from BCOM and through capital raised through new series of debenture on March 6, 2014. This improvement in cash will aid them to fully service their debt till 2017.

### Key Risks:

- (1) Fall in the controlling interest below 30% will lead to non-compliance with the "Control Permit" norms and result in a loss of authority in Bezeq.
- (2) IGLD is a leverage holding company of BCOM which further holds only one asset "Bezeq" and due to this is fully exposed to the Israeli communication market.
- (3) Ministry of Communications has released a list of services which the infrastructure owners will be obliged to offer as wholesale services to service providers which is likely to increase competition in the coming years<sup>vii</sup>.

**Industry Overview<sup>viii</sup>:** The telecommunications services industry in Israel is a highly developed one and consists of several segments all of which are highly competitive. The industry recorded revenue of approximately US\$8 B in 2011 with 56% of the total revenue being contributed by the cellular services sector and 26% by local landline voice and Internet access services. Multichannel television services and international voice services contributed 13% and 5% to the total revenue, respectively. The market is dominated by four major groups, namely the Bezeq group, the IDB group, the Partner group, and the HOT group with each of these having interests in some or all of the primary communications sub sectors. Major factors contributing to the growth of the industry include the various technological advancements made by the country in the sector, the massive inflow of foreign investments in the sector, and the favorable regulatory environment of the country, which has consistently promoted competition in the industry. Intense competition within all sub sectors has mainly been responsible for the sector witnessing downward pricing trends and higher churn rates. This has, in effect, given rise to newer trends in the industry with existing companies investing in better technologies to constantly innovate; they focus more on effective marketing strategies to introduce new products and services, differentiating them from their competitors in order to win valuable market share in a highly competitive business environment. With a view to provide high quality services at affordable price to consumers, Ministry of Communication (MoC) is in process to develop a Wholesale market for Fixed Communication. This Wholesale Regulation will enforce infrastructure owners to share their existing infrastructure with other license holders which are expected to increase competition.

## 2. Business Overview

Internet Gold Golden Lines Ltd is a publicly traded holding company of B Communication whose sole asset is 31% stake in Bezeq The Israel Telecommunication Corp Ltd., a leading telecommunication company headquartered in Israel. Its shares are traded on the Nasdaq Global Market and the Tel-Aviv Stock Exchange under the symbol "IGLD". The parent company, Eurocom Group, holds approximately 79% in Internet Gold Golden Lines (IGLD), a telecommunications group which, in turn, holds approximately 68% in BCOM. IGLD has currently only one subsidiary namely B Communication (68% stake) and all of its cash inflow comes through its interest in BCOM.

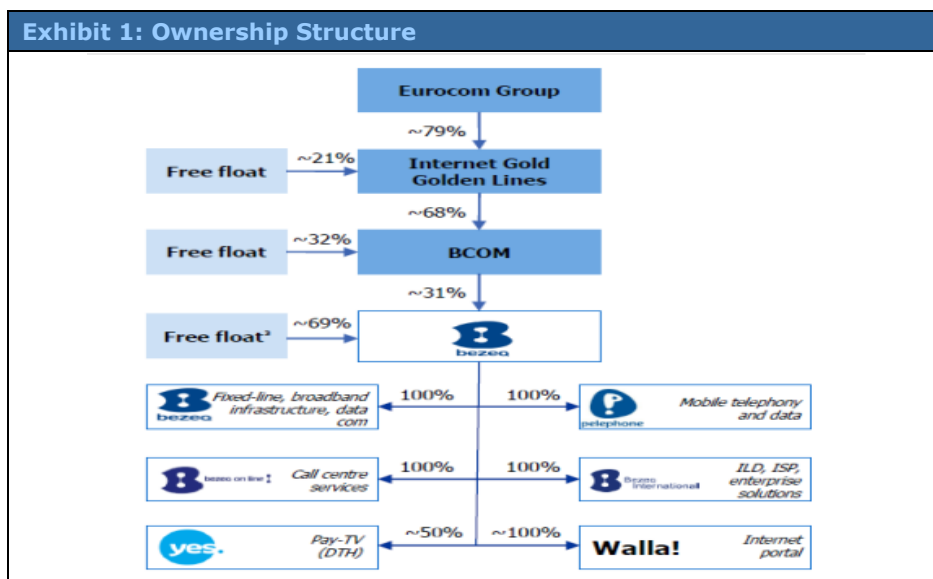
With BCOM becoming profitable during FY 2013 and meeting the criteria of Dividend Distribution Policy in accordance with the Israeli Companies law, Management has decided to announce first ever dividend of NIS102 MM during Q3 2013 to its shareholders. With added advantage of increase in cash through dividend inflow from BCOM, IGLD will be able to improve its liquidity and at the same time look out for new opportunities through inorganic route in Israel and other growing markets. As of December 31, 2013, total unconsolidated Net Debt stood at NIS731 MM with Gross debt at NIS1,060 MM and Cash & Cash equivalence at NIS329 MM.

Since BCOM's sole asset is its 31% controlling stake in Bezeq The Israel Telecommunication Corp, Ltd., Israel's largest telecommunications group, its key cash inflows are through dividends received from Bezeq. Bezeq follows a regular dividend policy of distributing 100% cash dividends on a semi-annual basis. Additionally, from 2011 to September 2013, Bezeq has also distributed six semi-annual payments of NIS500 MM (total of NIS3 B) as special dividends to BCOM.

In October 2009, IGLD through its subsidiary, BCOM (previously known as 012Smile Communication), acquired 31% of Bezeq from Apax-Saban-Arkin for NIS6.5 B (NIS8 per Share). The acquisition was partly funded with the proceeds that BCOM received from the sale of its legacy Communications Business (012Smile Communication) for NIS1.2 B and the rest of the fund totaled NIS 5.1 B was a private debt which has been taken from an Israeli banks consortium and Israel's largest insurance company.

Bezeq is Israel's largest telecommunication group with a clear leadership position. It provides services across the telecommunication spectrum of domestic fixed line, mobile voice, Internet services, International Long Distance (ILD) services, multichannel pay TV (YES brand in Israel), and Walla!, one of Israel's leading Internet portals. Bezeq's shares are traded only on the Tel-Aviv Stock Exchange. The fact that the shares of BCOM, Bezeq's controlling shareholder, and IGLD, BCOM's controlling shareholder, are listed on the Nasdaq Global Market, positions BCOM and IGLD as vehicles for U.S. investors interested in making an investment in Bezeq.

### 2.1 Ownership Structure <sup>ix</sup>



Eurocom Group, the parent company of IGLD is a privately held company with 80% of its stake held by Shaul Elovitch and balance 20% held by the Chairman of the Board of Directors and Yossef Elovitch, Director.

Eurocom Group holds a 79% stake in IGLD, which, in turn, holds a 68% stake in BCOM. Further, BCOM's sole asset is its 31% stake in Bezeq and IGLD's sole asset is its holding in BCOM.

Bezeq has stakes in the following companies across the telecommunication spectrum in Israel:

1. 100% stake in Bezeq Fixed line
2. 100% stake in Pelephone Cellular
3. 100% stake in Bezeq International
4. 49.80% stake in DBS (Remaining 50.20% stake is owned by Eurocom group)
5. 100% stake in Bezeq on line
6. 100% stake in Walla! Internet Portal

## 2.2 Company Milestones

Exhibit 2: IGLD Milestones	
Year	Event
1991	<ul style="list-style-type: none"> <li>Israeli government started privatization process for the telecommunication industry</li> </ul>
1992	<ul style="list-style-type: none"> <li>Eurocom forms Internet Gold under the name of Euronet Golden-Lines Ltd to capitalize on the privatization process</li> </ul>
1995	<ul style="list-style-type: none"> <li>The Internet emerged as new channel for service delivery, and to seize the opportunity, Internet Gold launched its Internet Service Provider (ISP) services</li> </ul>
1999	<ul style="list-style-type: none"> <li>Internet Gold's IPO – Gets listed on NASDAQ Global markets and Tel-Aviv Stock Exchange</li> </ul>
2004	<ul style="list-style-type: none"> <li>With Voice over Internet Protocol (VoIP) technologies maturing, Internet Gold introduced low cost ILD services and also started converting low Average Revenue per User (ARPU) Internet access customers to high ARPU broadband service customers</li> </ul>
2006	<ul style="list-style-type: none"> <li>Internet Gold acquired its key competitor in ILD &amp; ISP services 012 Golden Lines to expand its operation significantly</li> <li>To efficiently handle this expanded operation, Internet Gold through restructuring created BCOM (previously known as 012 Smile Communication) &amp; transferred its ISP &amp; ILD services and also merged 012 Golden Lines into BCOM.</li> </ul>
2007	<ul style="list-style-type: none"> <li>BCOM's IPO on NASDAQ Global market– Raised US\$80.1 MM through sale of 6.675 MM shares (27.56% of its outstanding shares) at US\$12 per Share.</li> <li>Shortly thereafter dual listed on Tel Aviv Stock Exchange</li> </ul>
2009	<ul style="list-style-type: none"> <li>BCOM signed a share purchase agreement for acquisition of the controlling interest (30.98%) in Bezeq from Apz-Saban-Arkin for NIS6.5 B (NIS8 per share)</li> </ul>
2010	<ul style="list-style-type: none"> <li>As part of a regulatory requirement in relation to the acquisition of a controlling stake in Bezeq, 012Smile Communication divested its legacy telecommunication assets and was renamed as BCOM</li> </ul>

## 2.3 Business Model

The indirect interest in Bezeq through BCOM is the only revenue generator for IGLD. With Bezeq being the only asset for BCOM and also for IGLD, the key revenue stream is the dividend flow from Bezeq that follows a dividend policy of distributing 100% of "Profit after Tax" as cash dividends on a semi-annual basis to its shareholders.

For Bezeq, the major business segments are as follows:

1. **Bezeq Fixed Line** - Domestic fixed line Services, Internet infrastructure and access services, Transmission and data communication services
2. **Pelephone Communications** - Cellular Services
3. **Bezeq International** - Internet access services, International Communication Services & NEP (Network end point) Services
4. **DBS (Digital Broadcast Satellite)** - Multi-channel satellite television (YES brand – shown as investments) - Yes Pay TV is the only company in Israel currently operating in the satellite multi-channel television broadcasting. Bezeq has a 49.78% stake in Yes Pay TV
5. **Others** - This segment includes Internet portals (Walla!) and customer call center services (Bezeq on line)

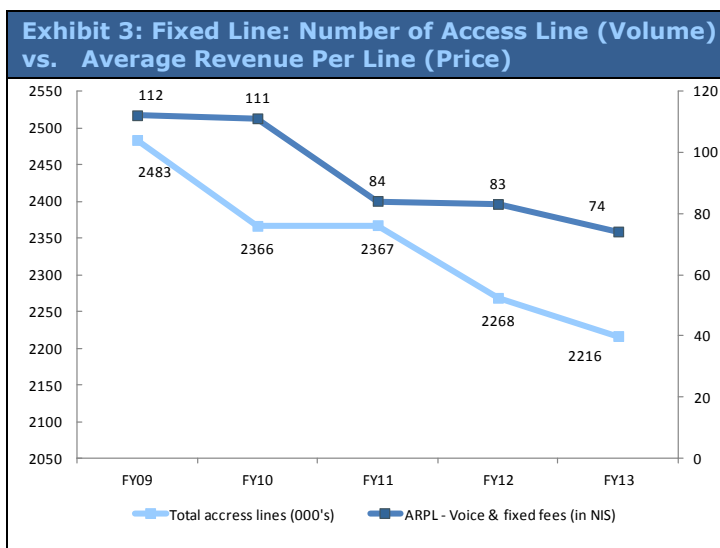
## 2.4 Products and Services <sup>x</sup>

### 2.4.1 Bezeq Fixed line

This segment of the company provides a wide range of services like fixed line telephony, Internet access infrastructure, Transmission and data communication services and various other services.

#### Products and Services Offered

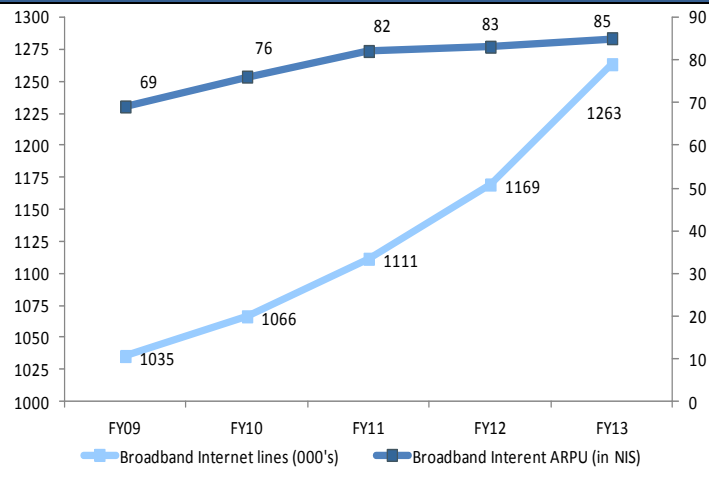
- **Fixed Line Telephony:** The Fixed line telephony services mainly includes the basic telephony services on the domestic telephone line with associated services such as voice mail, caller ID, music on-hold, and Bphone. Bezeq currently operates about 12,500 public telephones around Israel, which are operated by various types of cards.
- Seen as a trend across the globe, increased penetration of mobile services & telephony services using VoIP technology has led to a decline in both volume (number of access lines) & price i.e. Average Revenue per Lines (ARPL) in the fixed line telephony market. In order to arrest this decline, Bezeq is currently working on its innovation and marketing strategy by focusing on the development and penetration of new services, both in the private sector and in the business sector (Bcloud, Free WiFi). The Company plans to launch more such products on the basis of market trends and customer needs.



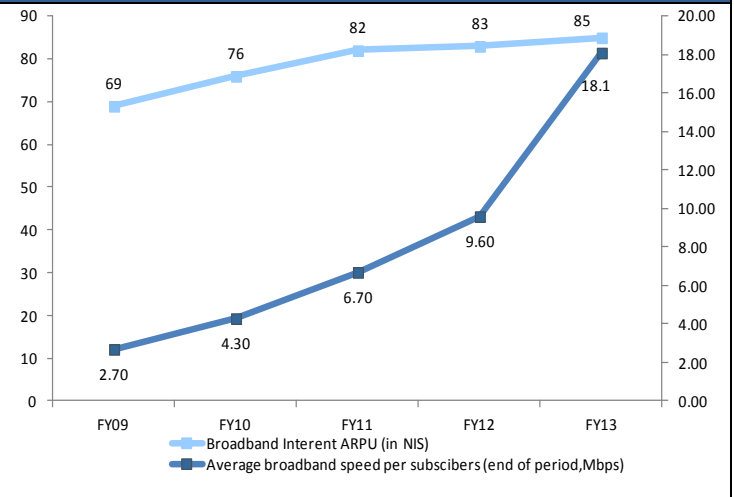
- **Internet Infrastructure & Access Revenues:** Bezeq provides broadband Internet access infrastructure services in xDSL technology, which is one of the key growth drivers for Bezeq. The total numbers of Internet subscribers were approximately 1.26 MM as of December 2013. The number of Internet subscribers increased by 94,000 Y-o-Y in FY2013 with 33,000 subscribers being added in the last quarter i.e. Q4 FY2013. This annual addition of 94,000 subscribers represented the highest annual addition, since 2005.

Further, during the year, Bezeq continued to actively upgrade its services by offering its customers enhanced broadband Internet speed. Average broadband speed was increased by 88.5% Y-o-Y to 18.1 Mbps in 2013, at free of cost. In 2013, Bezeq also accelerated its strategic roll-out of fiber-optic network, which currently covers more than 0.4 MM homes from Kiryat Shmona to Eilat. The Company management plans to further speed up the deployment process, with the aim of covering around 1 MM households, represent 40% of Israel's population, by 2014 year end.

**Exhibit 4: Broadband: Internet Lines vs. Average Revenue Per User**



**Exhibit 5: Broadband: ARPU vs. Broadband Speed per Subscriber**



- **Transmission and Data Revenues:** Data communication services are network services for transferring data from point to point, transferring data between computers and various communications networks, services connecting communications networks to the Internet and remote access services. The Company offers transmission services, including high speeds to communications operators and its business customers in a range of interfaces.
- **Other Services**
  - **Services to Communications Operators:** The Company provides services for other communications operators, such as cellular operators, international call operators, HOT, NEP operators, ISPs, Domestic Carriers, and Palestinian communications providers. The services provided by the Company include infrastructure services, infrastructure upgrades, connection to the Company's network, transmission services, billing services, leasing of space, services in leased premises.
  - **Broadcasting Services:** The Company operates and maintains radio transmitters, which are operated, inter alia, by Israel Broadcasting Corporation, Israel Army Radio (Galei Zahal), and the broadcasts of a number of regional radio stations. It also operates the Digital Terrestrial Television (DTT) transmitters for the Second Authority. The Company is responsible only for operating and maintaining the transmitters, and not for the content of the broadcasts.
  - **Contract Works:** The Company carries out set-up and operation works of networks or sub-networks for various customers (e.g. the Ministry of Defense, HOT, radio and television broadcasting companies, cellular operators, international call operators, local authorities, municipalities, and government bodies). The Company has agreements with HOT Telecom for providing installation, maintenance, and hosting of networks using the Company's infrastructures from the exit point of the operation of the license-holders to the delivery point at the entrance to the homes of the subscribers. (The connection and maintenance from these points to the subscribers' homes is not the responsibility of the Company).
  - **IP Centrex:** IP Centrex service is a private and virtual exchange service in a public network
  - **Data Center:** A service enabling a backup and survivability solution for the customer
  - **144 Internet Site (B144):** A search engine for finding the telephone numbers of businesses and private persons, including a classified search
  - **Free Wi-Fi services:** This service allows the Company's customers to share a part of their wireless bandwidth, and in turn, they are allowed to browse outside their homes.

### 2.4.2 Pelephone

Pelephone is the third largest cellular communication player in Israel with a market share of 26.8% as of December 2013<sup>xi</sup>. In addition to mobile services, it also sells and services terminal equipment. Pelephone, a 100% subsidiary of Bezeq, became a part of Bezeq through acquisition in 2004.

Until the end of 2011, only four companies operated in the cellular services segment of Israel’s cellular communications market. However, with a view to make mobile services more affordable to its customers, the Ministry of Communications introduced numerous regulatory measures through which cellular telephony market has become more competitive. By taking regulatory moves like removal of barriers to the movement of customers between cellular operators, and by giving licenses to additional operators during 2012, a number of cellular operators started their operations in the country. The entry of these new operators has led to fierce competition, resulting in higher churn rates among the existing operators and price wars between participants leading to erosion in price and profits across the sector. During the year 2013, Alon Cellular (MNVO) signed a hosting agreement with Pelephone; shifting from Partner’s network demonstrating Pelephone’s high level of advanced network infrastructure. The operation is expected to begin approximately in the second quarter of 2014.

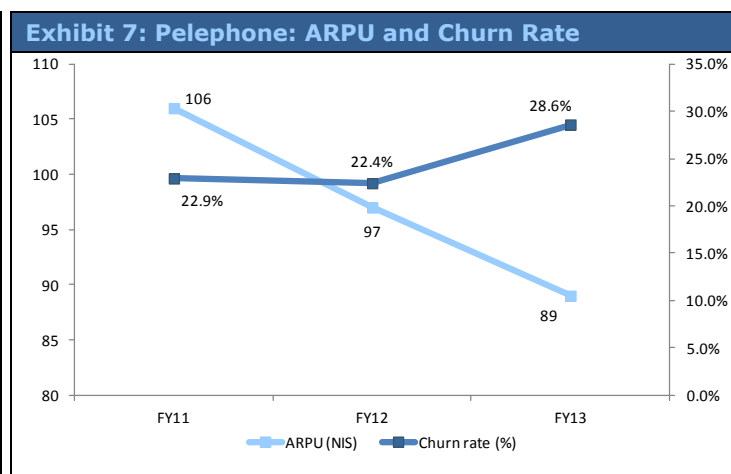
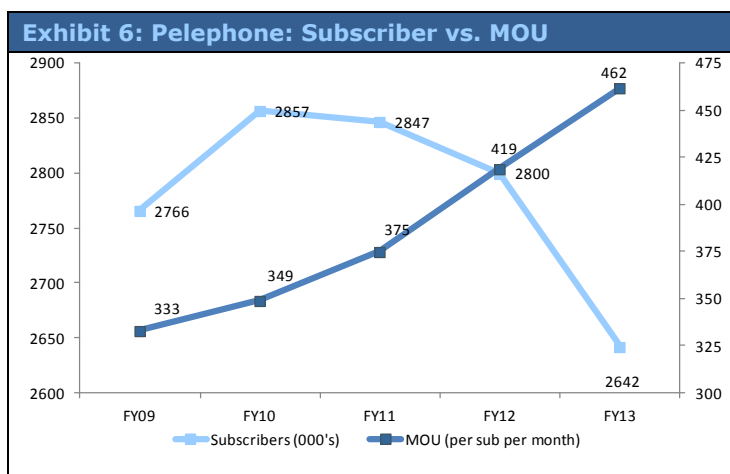


Exhibit 6 displays that despite a decline in the number of subscribers in the last two years, Pelephone has managed to generate more volume per subscribers as evidenced by consistent growth in Minutes of Usage (MOU).

Exhibit 6 & 7 displays Pelephone’s strategy to grow its revenue through volume growth (MOU) and at the same time counter the high subscribers churn rate through reduced pricing.

### Products and Services Offered

**Products:** Pelephone offers its customers various types of cellular telephone, on-board telephones, and hands-free devices, as well as support for its range of services. It also supplies its customers with modems, laptop computers, and tablets for surfing the Internet through the Pelephone network.

- **Services:** Pelephone provides its subscribers with comprehensive services of voice transmission, transmission of text messages, data communications and advanced multimedia services. These services are offered using both the technologies, UMTS/HSPA & CDMA. However, since 2009, recognizing advantages like download speed of up to 42 Mbps and upload speeds of up to 5.7 Mbps of UMTS/HSPA technology, Pelephone has solely focused on the UMTS/HSPA technology as the primary network technology to efficiently cater to its customers’ needs.



### 2.4.3 Bezeq International

Bezeq International's operations include ISP services, international telephony services; domestic internal telephony services, based on a Voice over Broadband (VoB) infrastructure, NEP services, ICT (Infrastructure and Communication Technology) and data services.

#### Products and Services Offered

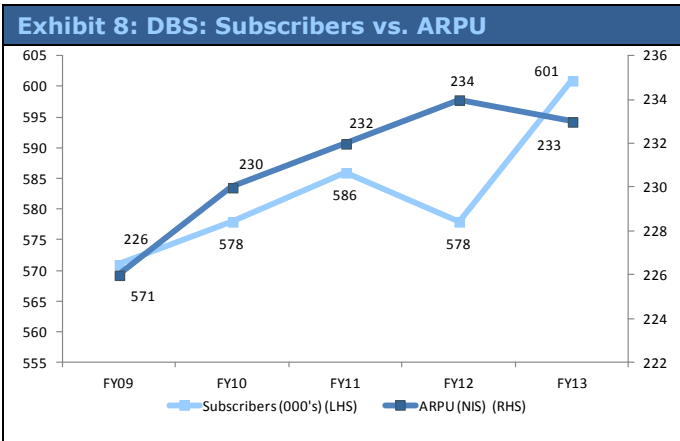
- **Internet Services:** In the Internet services sector, Bezeq International provides Internet access services for private and business customers, including terminal equipment and support, with an emphasis on broadband Internet based on ADSL, transmission or cable infrastructures; hosting services – site storage and server services in a designated installation, including value-added services (such as monitoring and control); information security services, services securing Internet connections and LAN networks using the required terminal equipment or software, including monitoring; data services with IP-based international data communication solutions for business customers, including global deployment; and high speed wireless (WIFI) access, including in public locations (hotspots).
- **Voice (Telephony) Services:** In the voice services sector, Bezeq International provides International Direct Dialing (IDD) services to business and private customers; toll-free number services for business customers overseas; international call routing and completion services (hubbing) – transfer of international calls between foreign communication providers (worldwide), telephone card services enabling prepaid and postpaid dialing from Israel; and the 1809 service for dialing from Israel to other countries. Bezeq International also provides domestic telephony services by means of VoB access using Basic Imaging Profile.
- **International Data Services:** The supply of international data communication solutions for business customers includes customized global deployment. The customer is able to choose from a range of the most advanced data communication methods through the submarine cable deployed by Bezeq International and the optic cables deployed from Israel to Europe for which Bezeq International has long-term usage rights and through its business partnerships with leading global telecom providers such as British Telecom, which make available to their customers their sophisticated global network services.
- **ICT Solutions for Business Customers:** Bezeq also provides Information and Communication Technology (ICT) solutions for business customers. As part of the customer's overall ICT solution, Bezeq International provides broad communications services, including international data and communication services, server and site hosting services, technical support and maintenance services, network and system services, outsourcing and out-tasking services, security and risk management solutions, managed IP services, advanced, unique cloud computing services and online backup services.
- **PBX Services:** Bezeq International markets and maintains communication systems in the Israeli market, exchanges, telephony networks and IP communications. As part of the service contracts, Bezeq International supplies direct maintenance of range of exchange manufacturers. The services are given to gateways, exchanges and Network End Points (NEP) designated for use with both internal and external lines.

### 2.4.4 Digital Broadcast Satellite (DBS)

DBS, also known by its trade name YES, provides encoded and digital multi-channel broadcast services as well as other satellite services to subscribers in Israel, and the Judea and Samaria region. There are only two digital multi-channel service providers with DBS the only digital multi-channel satellite provider in Israel and HOT, which provides multi-channel television broadcasting through cable in Israel with combined penetration rates of 62% of households in Israel<sup>xii</sup>. As on December 31, 2013, Bezeq has a 49.8% stake in DBS with remaining 50.2% stake held by parent company Eurocom group. YES is Israel's sole satellite provider and first television provider to offer digital broadcasts and interactive services. It has nationwide satellite availability with subscriber count of 601,000 subscribers with 40% market share at the end of 2013<sup>xiii</sup>.

**Products and Services Offered**

- **Broadcasts:** DBS’s broadcasts include a wide variety of channels: there are approximately 140 different video channels (of which five are Pay per View (PPV) channels, 20 are High Definition (HD) channels), in addition to radio channels, music channels and interactive services. The broadcasts includes a basic package which each subscriber is required to purchase as well as additional channels chosen by the subscriber, either as a package or as single and PPV channels.
- **Advanced Services:** DBS markets PVR decoders which interface with DBS’s electronic broadcasting schedule and enable receipt of special services, including ordering recordings in advance, recording series and pausing live broadcasts. The PVR decoders also enable viewing of the content which is transferred from time to time to the decoder’s memory which is updated from time to time by DBS (push video). DBS provides HD broadcasts which can be received through special decoders. These broadcasts allow superior quality viewing. DBS also markets HDPVR decoders. The majority of DBS subscribers use PVR decoders. DBS believes that an increase in the number of subscribers using PVR decoders will contribute to an increase in its revenue from these subscribers and to their retention as subscribers, but it requires a material financial investment. DBS provides a service enabling the viewing of certain Internet content on TV screens, through the use of some types of advanced decoders (streamers).
- **Video on Demand (VOD) Services:** DBS provides its subscribers with VOD services via Internet. This service has limitations with regard to the types of decoders enabling service reception, and with regard to availability of services owing to constraints connected with the Internet infrastructure and bandwidth installed in customer homes. These limitations have declined in recent years in view of the increase in the available bandwidth in subscribers' homes. In recent years, the number of DBS subscribers connected to VOD services and the use of VOD services has increased significantly.
- **Others:** The ‘Others’ segment consists of the Internet Portal, Walla! Communication, and Bezeq OnLine
  1. **Internet portal - Walla! Communication:** Walla! Communication is a 100% subsidiary of Bezeq and is one of the most popular websites in terms of traffic generation in Israel. Key services provided by the website include news, email, online shopping, on demand music, mobile downloads, information officially taken from Wikipedia.
  2. **Call Center – Bezeq OnLine:** <sup>xiv</sup> Bezeq OnLine is a 100% subsidiary of Bezeq, which specializes in setting up, managing, and operating call centers that provides services such as service and information centers, telemarketing sales centers, meeting coordination centers, conducting surveys and data enrichment, event, and appointment scheduling, after hours answering services.



**2.5 Company Premiums**

- **Strong Management Team:** The Company’s management team includes highly qualified professionals who are either Certified Public Accountants or hold an MBA degree and have significant experience in the field of Management, Communication, and Operational & Financial Management. The Company’s management team includes Mr. Shaul Elovitch, who is the founder of Eurocom Communications and Chairman of the Board of Directors (BOD), Bezeq and its subsidiaries, enjoys a highly respectable position in Israel’s business community. He holds a controlling power over the Company’s operations and business strategy, which is considered to be favorable, as he holds significant experience in building leading communication businesses and other major investments businesses. Further, Mr. Doron Turgeman, CEO, who has been with the Company since 2001. His significant experience of 17 years in Management and 15 years in Communication has enabled him to prove his capabilities across strategy creation and strategic planning, marketing and brand development, operational and financial management, managing mergers and acquisitions, creation of partnerships, capital raising methods. He has successfully executed 11 major transactions, which include two IPO’s for IGLD and BCOM and nine bond issues in Israel and just recently successfully closed a private offering to qualified institutional buyers in United

States worth \$800 MM, 7¾% Senior Secured Notes due 2021. The presence of these consummate personalities provides the Company with an advantage to experience excellent business opportunities.

- **IGLD's balance sheet and its current financial flexibility, allows it to look out for any possible M&A activity:** As on December 31, 2013, the unconsolidated net debt stood at NIS731 MM and also with dividend inflows from BCOM in coming years will help IGLD to improve its leverage taking ability. Also with BCOM totally focused on maximizing performance of Bezeq, will give IGLD an opportunity to lookout for any acquisition in Israel and other emerging markets
- **IGLD's Debt Rating Upgraded to 'Baa1':** Midroog Ltd, an Israeli rating company, which is also an affiliate of Moody's Investor services, has provided a rating of 'Baa1' for the Company's recent NIS120 MM issuance of Series D Debentures. The credit rating agency has also raised the Company's outlook from 'Negative' to 'Stable'. The 'Stable' rating is backed by the factors such as the Company's independent ability to repay the debt and the strong financial position of Bezeq.
- **Bezeq Holds Strong Market Positions in all Telecom Segments:** The Company's business is solely dependent on the business of Bezeq, which is considered to be the leading provider of advanced telecommunications operations and services in Israel. All of its service segments are well positioned with respect to its competitors in the market as discussed below:
  1. **Domestic Fixed-line segment:** Bezeq holds a 61% market share of the fixed line and broadband services in Israel and provides advance network services such as Next Generation Network (NGN), which is an advanced communication network in Israel covering over 99% of Israeli households.
  2. **Telephone:** Cellular Communication is the third leading provider of cellular services holding a 26.8% market share in Israel, and in order to differentiate its services in the market, it has focused on providing high quality network such as HSPA (High Access Packet Speed) cellular technology offering 3.75 G speed. Penelope has also proved its capability of well managing its business during crisis, in terms of experiencing lowest increase in churn, smallest loss of subscriber's market share during 2011-2013 as compared to its incumbent operators.
  3. **Bezeq International:** It provides a number of key services, but under Internet Service Provider (ISP) segment, Bezeq is regarded as one of the leading broadband service providers in Israel, holding nearly 40% Internet market share, and continuously striving to maintain its position by presenting subscribers with customized service plans and advanced IP services.

Therefore, we believe that Bezeq's leading market shares in most of the segments and its proven ability to survive crisis situations help sustain its position of dominant tele-communication service provider in Israel, which ultimately is favorable for IGLD's business.

## 2.6 Company Risks <sup>xv</sup>

- **Risk of Non-compliance with respect to Financial Agreement Norms and too much dependency on Bezeq for Repayment of Debt:** In 2010, IGLD through BCOM acquired a 30.96% controlling interest in Bezeq. In order to facilitate its funding requirements, it entered into two financial agreements totaling a principal amount of NIS5.1B. As of April 22, 2013, a few additional covenants were added. As per the new covenants, the Company has to maintain a minimum shareholder's equity and minimum ratio of shareholders equity. BCOM's wholly-owned subsidiary, which directly holds the Bezeq interest, is required to maintain a minimum ratio of debt to EBITDA and debt service coverage ratio. However, on failure to abide by either of these norms will allow the lenders to ask for immediate repayment of debts. Moreover, the Company has provided security to the lenders by pledging Bezeq's shares (excluding 29.6MM shares acquired in 2011) and shares of the subsidiary that was established to acquire Bezeq's stake. In addition, the Company is highly dependent on Bezeq's dividend to repay its debt, and any change in Bezeq's dividend distribution policy can significantly impact the Company's ability to pay off its debt. However, it is important to note that Midroog Ltd has provided the Company with a rating of 'A2' and has also upgraded its outlook from 'Negative' to 'Stable'. The 'Stable' outlook strengthens our belief in the Company's ability to meet its debt obligations in the short and medium term.

- **Exposed to changes in Israeli Communication market:** Bezeq is the only sole asset for IGLD through its holding in BCOM. Bezeq's operations are focused only in the telecommunication space and have presence only in Israel, making it vulnerable to any changes in the Telecommunication space in Israel.
- **Recent Development: Creation of Wholesale Market:** The Ministry of Communication (MoC) is in process to develop a Wholesale market for Fixed Communication Services which is currently dominated by two players, Bezeq and Hot. As per the new regulation, the MoC has released a list of services which the infrastructure owners of nationwide fixed access networks will have to offer as wholesale services to other license holders. This will encourage new players to enter as they would incur lower capital expenditure as they would be allowed to use the infrastructure of the existing players. Thus, creation of the Wholesale market can lead to increase in competition and loss of subscriber base as well as revenue.

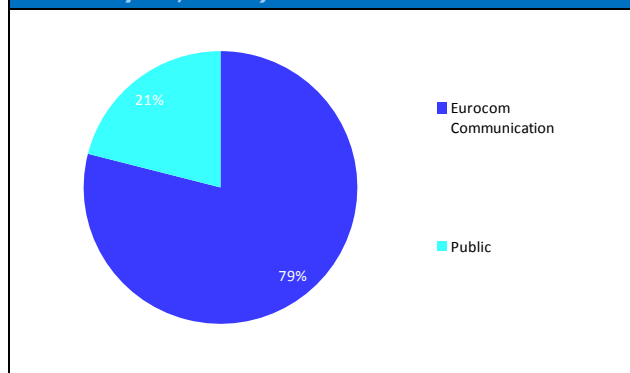
## 2.7 Corporate Strategy

Since IGLD has no business operations of its own and is dependent on the business activities of Bezeq to derive its revenue, the report highlights strategies adopted by Bezeq.

- **Building and Maintaining Competitive Position:** Bezeq is considered to be one of the leading service providers for its broad array of telecommunication services in Israel. In case of fixed-line telecommunication services, Bezeq holds approximately 61% of market share in Israel. Therefore, in order to sustain its leadership position and to deal with the competition Bezeq devised a strategy to reinforce the apparent value of products and services by launching new communication services, value added applications, and product packages. This helped them to broaden its subscriber base. The Company was engaged in making regular investments to modernize its infrastructure, thereby offering advanced services and products to its subscribers. Further, the services offered incorporates the services provided by its competitors so that subscribers get a joint package of products and services, which will eventually help the Company in building strong customer loyalty
- **Focused on Increasing Next Generation Networks (NGN) Penetration in Israel:** In Israel, NGN communication network covers about 99% of the Israeli households. Therefore, Bezeq, the leading service provider for NGN services, is focused on the penetration of its high-speed NGN Internet infrastructure and increasing its subscription base for the service. Bezeq's NGN technology is based on fiber optics, which enables broadband high-speed services and advanced IP telephony services. Moreover, broadband services offered to subscribers over NGN-FTTC (Fiber to the curb) network, which make transmission possible at a speed of 100 Megabits per second enabling subscribers to enjoy the most advanced communications and content services. Average broadband speed offered to its customers was increased by 88.5% Y-o-Y to 18.1 Mbps at the end of 2013 at free of cost. In 2013, Bezeq also accelerated its strategic roll-out of fiber-optic network, which currently covers more than 0.4 MM homes from Kiryat Shmona to Eilat. The management plans to speed up deployment with the aim of covering around 1 MM households, representing 40% of Israel's population, by end of 2014.
- **Simplified Tariff Structure:** Bezeq offers a simplified tariff structure to both fixed and mobile phone customers and also provides them with alternative payment packages for a service package, tracks and campaigns. For instance, special tariff packages are offered based on the needs of the customers (with the approval from the Ministry of Communications and Knesset Finance Committee). But, in order to create a competitive edge and improve its turnover, Bezeq devised a strategy to utilize use-based packages and service tracks, which will help them to increase subscription base for its telephony service.
- **Cost Control:** Bezeq invests in fixed assets and in projects that shall not only help in improving efficiency of the production process but also reduce operating costs. However, Bezeq's ability to make adjustments in its expenses in the short and medium term is limited since its costs structure is majorly rigid, as it includes depreciation and wage expenses, as well as the operating costs such as infrastructure maintenance, lease fees, and building upkeep fees.

## 2.8 IGLD's Shareholding Pattern

**Exhibit 9: Shareholding Pattern (As of February 28, 2014)** <sup>xvi</sup>



**Exhibit 10: Shareholding Pattern** <sup>xvii</sup>

Shareholders	No. of Shares	% of total
Eurocom Communication	15,164,929	79%
Public	4,038,257	21%
<b>Total Shares Outstanding</b>	<b>19,203,186</b>	<b>100%</b>

## 2.9 Listing and Contact Details

Internet Gold's shares have traded on the NASDAQ Global Market under the symbol "IGLD" since August 1999 and on the TASE under the symbol "IGLD" since February 2005.

**Contacts:** Internet Gold – Golden Lines Ltd, 2 Dov Friedman Street, Ramat Gan 52503, Israel

**Email ID:** idit@igld.com

**Phone:** +972-3-924-0000

### 3. Key variable analysis<sup>xviii</sup>

#### 3.1 Variable 1 – Fixed-line Telephony: Total Access Lines Growth rate

Fixed line Telephony is classified as a sub-segment under the segment, Domestic Fixed line Communication. Fixed line Telephony contributed 20.6% to the total revenue in 2013 and 44.0% of Domestic Fixed line communication segment revenue in 2013. Due to increased use of cellular services and improved penetration of VoIP provider, this segment in terms of volume measured by Access lines has seen continuous decline for the last three years. With Ministry of Communication (MoC) planning to enforce the Wholesale Market Regulation in Fixed Line which will result in higher competition and hence we expect a decline in access line's growth rate

Exhibit 11: Total Access lines Growth Rate							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	(22.0%)	(26.0%)	(26.0%)	(21.0%)	2.0%	2.0%	2.0%
<b>High estimate</b>	(20.0%)	(25.0%)	(20.0%)	(20.0%)	3.0%	3.0%	3.0%

#### 3.2 Variable 2 – Broadband Internet Lines Growth Rate

Broadband Internet is one of the key growth drivers for Bezeq, contributing 13.5% of the total revenue in 2013. Bezeq, being a leader in providing broadband service has consistently strived to increase the average broadband speed per subscriber in order to ensure consistent growth. With the expected entry of more players in the coming year due to the Wholesale Market Regulation, we expect Bezeq's growth in this segment to slowdown.

Exhibit 12: Broadband Internet Lines Growth Rate							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	6.0%	5.0%	5.0%	4.8%	4.7%	4.6%	4.5%
<b>High estimate</b>	6.2%	5.4%	5.1%	4.9%	4.8%	4.7%	4.6%

#### 3.3 Variable 3 – Cellular Communication: Subscriber's Growth Rate

Through Pelephone, Bezeq operates Israel's third largest cellular operator in terms of market share. Cellular services contributed 39.8% to the total revenue in 2013. Due to intense competitive pressure due to presence of many MNOs and MVNOs, we expect marginal decline in Number of Subscribers in line with historical trend. But due to high quality of services and low tariff structure provided by Pelephone, we expect it to record decline in churn rates in the coming years which will further lead to marginal growth in the subscriber volume.

Exhibit 13: Cellular communication: Subscribers Growth Rate							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	(5.0%)	(5.0%)	(3.0%)	(3.0%)	(2.0%)	1.0%	1.0%
<b>High estimate</b>	(4.0%)	(4.0%)	(2.0%)	(2.0%)	(1.0%)	1.0%	1.0%

#### 3.4 Variable 4 – Cellular Communication: ARPU

Due to continuous intense competitive pressure, we expect steady to mild decline in ARPU in the coming years.

Exhibit 14: ARPU							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	87	86	85	84	84	84	83
<b>High estimate</b>	88	87	86	85	84	84	83

## 4. News

### IGLD

- **Internet Gold-Golden Lines Ltd Announced Results of the Public Tender for its Debentures Offering in Israel<sup>xxix</sup>:** On March 3, 2014, IGLD announced the results of the public tender held on March 3, 2014 for its offering in Israel pursuant to a prospectus dated February 24, 2014 of Series D Debentures, with a fixed annual interest rate of 6%. On February 27, 2014, the Company announced the results of the classified bidding for the Debentures. In the tender, the Company accepted orders for 117,597 units of the non-convertible Debentures (each in the principal amount of NIS 1,000, the "Units") for an aggregate principal amount of approximately NIS 117.5 MM (approximately \$33.7 MM) at a price per unit of NIS 1,070. The Company received gross offering proceeds of approximately NIS125.8 MM (approximately \$36.1 MM).
- **IGLD Completed a Private Placement of additional NIS60 MM par value of its Series C Debenture<sup>xxx</sup>:** On November 12, 2013, IGLD announced a private placement of NIS60 MM par value of its Series C Debentures to several Israeli Institutional investors for total sum of approximately NIS59 MM (around US\$16.7 MM). The private placement was offered pursuant to Regulation S under the Securities Act 1933. The newly issued Series C Debentures will not be registered under the Securities Act and may not be offered or sold in the U.S. or to U.S. persons unless they are registered under the Securities Act or an exemption from registration is available. The issuance of the newly issued Series C Debenture is subjected to: a) confirmation from Midroog Ltd, that the issuance will not cause a reduction in the Series C Debentures' 'Baa1' (Negative) rating; b) the listing of such debentures for trade on the Tel Aviv Stock Exchange.

### Bezeq Group<sup>xxi</sup>

- **Regulation of Wholesale Services:** On January 15, 2014, Bezeq announced that the Ministry of Communications' has released a list of services which the owners of infrastructures (thus including the Company) shall be obliged to offer as wholesale services to service providers. The list of services includes Bitstream Access on a nationwide, regional or local connectivity level; Sub-loop unbundling (at this stage - only in the Company's network and not in Hot Telecom's network); lease of dark fiber over the entire network; lease of Virtual dark fiber in the core network; access to the physical infrastructure of cables, sub-cables, manholes, boxes and posts over the entire network; as well as wholesale telephony service.
- **Pelephone Network Sharing Agreement:** On December 10, 2013, Bezeq's subsidiary, Pelephone entered into an agreement with Cellcom Israel Ltd. and Golan Telecom Ltd. for the establishment and operation of a fourth-generation cellular network (LTE) and an agreement with Cellcom for sharing the passive components of cellular sites on the existing networks.
- **Private placement by enlargement of an existing Debentures series:** On November 14, 2013, Bezeq announced that it has entered into a transaction for the private placement of 434,782,609 Debentures (Series 6) of the Company to institutional investors included under the First Schedule to the Securities Law, 5728-1968, for an aggregate consideration of NIS 500 MM; i.e. NIS 1.15 per each Debentures (Series 6) par value NIS 1, by increasing the existing Debenture series (Series 6) issued by the Company.
- **Draft Terms of Bezeq-Yes Merger:** On November 3, 2013, Bezeq has released the initial draft of the terms for Bezeq's merger with D.B.S Satellite Services, wherein it currently holds 49.8% from the Antitrust Authority. With respect to increasing Bezeq's shareholdings of YES, Bezeq's BODs has formed a sub-committee that includes members who are all external or independent directors to decide on the merger activity.

## 5. Management and Governance<sup>xxii</sup>

The Company's management team includes highly qualified professionals having significant experience in the field of Management, Communications, and Operational and Financial Management. Additionally, the Company's management team possesses proven capabilities in strategy creation and strategic planning, marketing and brand development, management of mergers and acquisitions, creations of partnerships and raising capital which is evident from its 11 major transactions, which includes two IPOs - IGLD and BCOM, and nine bond issues.

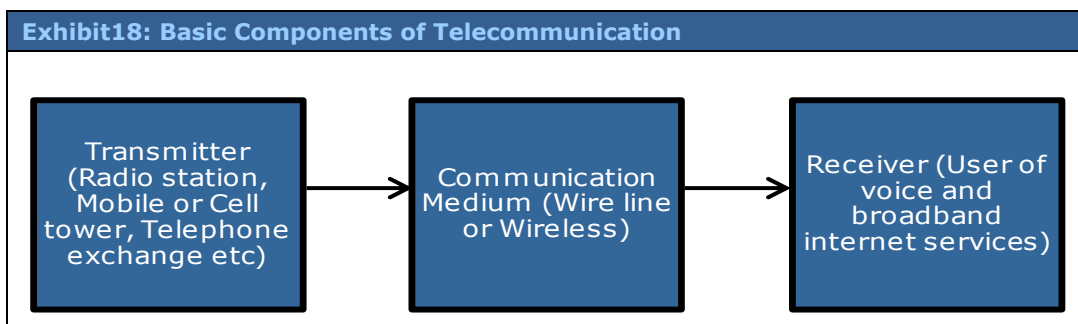
Exhibit 17: Management Team			
Name	Designation	Age	Background
Mr. Doron Turgeman	CEO	46	<ul style="list-style-type: none"> <li>• He holds a B.A. degree in Economics and Accounting from the Hebrew University of Jerusalem and is a Certified Public Accountant (CPA) in Israel</li> <li>• He has significant experience of about 17 years in management and 15 years in communications</li> <li>• He has been serving the position of CEO with IGLD since October 2011, and previously, he had served the Company holding position of Deputy CEO since October 2004, and CFO since May 2001</li> <li>• Currently, he is also serving as the CEO with BCOM and as the CFO with Eurocom Communications</li> <li>• From February 2010 – October 2011, he served BCOM as the CFO and Vice President of Finance, and from January 2008 – February 2010, he served BCOM's BODs as a member</li> <li>• Additionally, he had served as an executive officer for several of the Company's Media and Internet companies, which have been sold including CEO of MSN Israel which is a joint subsidiary of IGLD and Microsoft Corporation.</li> </ul>
Mr. Ehud Yahalom	Principal Financial Officer	36	<ul style="list-style-type: none"> <li>• He holds a B.A degree in Economics and Accounting from the Haifa University, an MBA degree from the college of Management Academic Studies in Rishon LeZion and is a CPA in Israel.</li> <li>• He had joined the Company in May 2011 as a controller and was promoted to Principal Financial Officer in October 2011.</li> <li>• In the past, he had served Deloitte Israel branch's Enterprise risk services department as a senior consultant, and from 2007-2011, he had served Cellcom Israel Ltd's accounting department.</li> </ul>



## 6. Technologies and Markets

### 6.1 Telecommunication <sup>xxiii</sup>

Telecommunications involves the integration of voice, data, pictures, videos, and different communication technologies with electronic devices to facilitate communication between people and deliver entertainment, information, and other services. The process involves the use of computer, and mobile technology to transmit, receive, and switch voice, data, and video communications over different transmission medium (including copper, fiber optic cable and cellular communication). Telecommunication networks were originally designed for voice services but with evolution of Internet Protocol (IP), the data and video services are also becoming an important part of telecommunication. Quality and efficiency of telecommunication depend upon the medium (carrier) by which the information is transferred. These transmission carriers or mediums are broadly classified as wire line and wireless modes of communication transmission.



### 6.2 Medium of Telecommunication:

#### 6.2.1 Wire Line Telecommunication <sup>xxiv</sup>

Wire line Communication or fixed line communication requires a fixed carrier as the transmission medium. The medium of transportation of information could be either copper wiring or optical fiber wire. The devices (telephones, computers, routers) are connected through a fixed cable and require individual technologies to transmit information. Wire line telecommunication provides data and voice communication services, which includes local and long distance voice service, broadband Internet access, corporate networking solutions, data center and cloud services, and security and managed network services. Wire line communication has an advantage of having higher bandwidth<sup>1</sup> when comparing it to wireless mode communication system.

##### 6.2.1.1 Next Generation Network (NGN) <sup>xxv xxvi xxvii</sup>

NGN is the most advanced communication network, which uses a packet-based network to transports all information and services (voice, data, and media such as video and pictures) by converting them into packets (digital) form. This enables the carrier to carry all types of services including voice, data, video, and signaling through single communication channel. NGNs are commonly built around the IP, and therefore the term "All IP" is also sometimes used to describe NGN. This technology provides several advantages over other network technologies. For service provider, the NGN offers lower capital expenditure, low operating expenses, greater power saving, less space requirement and low maintenance cost. For, the user it provides benefits of low cost and high speed of services. NGN technology provides information transfer speed in the range of 20 to 100 megabits per second. The future of NGN technology is the enhancement to fiber NGN, which uses fiber – Optic as transmission medium. Fiber NGN have transmission rate in the range of 100 megabits per second to 1 gigabits per second.

##### 6.2.1.2 Fiber – Optic Communication <sup>xxviii</sup>

Fiber-optic communication is a transmission medium, which transmits information from one place to another by sending light pulses through an optical fiber cable. Fiber optic data transmission systems send information over fiber optic cables by turning electronic signals into light. This medium of transmission is a popular alternative to the conventional cable wires mainly due to high rate of transmission speed. Information transported using fiber optic cables creates an electromagnetic carrier wave that carries information. This technology provides enhanced data security, high bandwidth over a long distance communication and fastest way of transporting information.

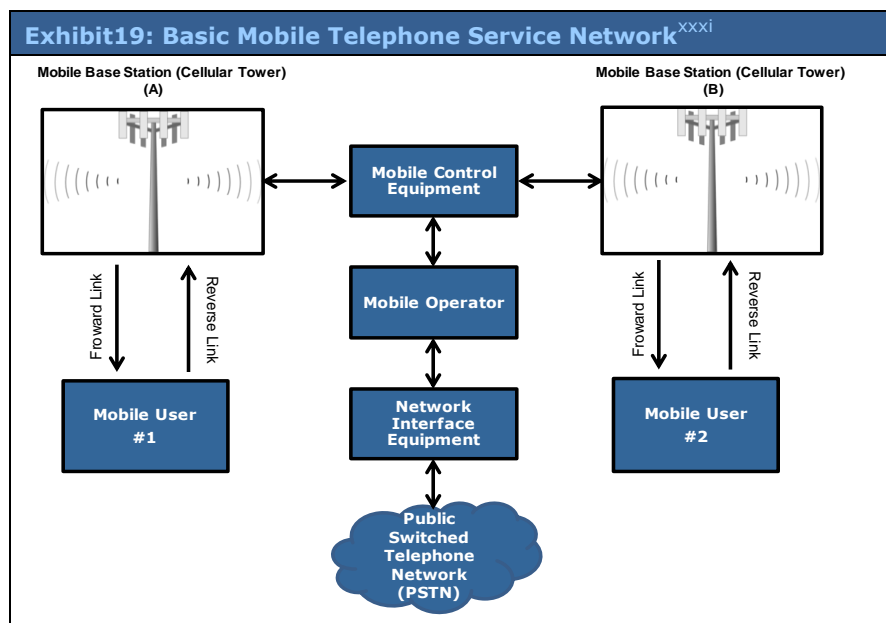
<sup>1</sup> In communication, the term 'bandwidth' refers to how much data can be transmitted in a certain amount of time. In essence, higher bandwidth requires less time to transport bundle of information.

## 6.2.2 Wireless Telecommunication<sup>xxix</sup>

Wireless telecommunication involves the transmission of information over a distance without the use of wires, cables or any other forms of electrical conductors. The transmitted distance can be anywhere between a few meters to thousands of kilometers (for example, cellular communication). Mobile communication also known as cellular communication is one of the best examples of wireless technology.

### 6.2.2.1 Cellular Communication<sup>xxx</sup>

A cellular communication system provides a wireless connection to the public telephone network for any user located within the range of the system. This technology is the most popular wireless communication system which has been the catalyst to the wireless revolution. Cellular mobile communication system uses a large number of low – power wireless transmitters to create cells. A cell is the basic geographic unit of a cellular system. Each mobile uses a separate temporary radio channel to talk to cell site (physical location of radio equipment that provides coverage within a cell). The cell site uses one channel per mobile to communicate many mobiles at once. Communication channel uses a pair of frequency to establish the connection. One frequency is used for the transmission of the information from the cell site, known as the forward link. The other one is the reverse link, used for the cell site to receive calls from the user.



### 6.2.2.2 Voice over Internet Protocol (VoIP)<sup>xxxiii</sup>

VoIP is a communication technology used to for the delivery of voice communication and multimedia information over IP network. This technology converts analog audio signal (voice) into digital form and transmit it over the Internet. Voice calls using VoIP can be made using computers, special VoIP phones or traditional phones using an Internet connection. The most attractive advantage of making voice calls using VoIP technology is the cost saving as it uses Internet services to make small as well as long distance voice calls.

## 6.2.3 Broadband Internet Services<sup>xxxiii</sup>

Many of the current and newly-developing Internet services require the transfer of large amounts of data that may not be possible with conventional dial-up Internet service. Broadband Internet provides alternative to this problem as it enables high speed data transmission to access information over World Wide Web (WWW). This technology gives access to the highest quality of Internet services like streaming media (audio and video), VoIP, Internet gaming, and other interactive services. Broadband Internet services are provided through fixed line and wireless technologies. The most commonly used fixed line broadband Internet technologies are Digital Subscriber Line (DSL) modem, Cable Modems, Fiber Optic and Broadband over Power Lines (BPL). Wireless broadband Internet uses Fixed Wireless Access (WiFi, WiMAX), Mobile Broadband (3G, 4G, 5G) and Satellite Communication techniques to access high speed Internet services.

## 6.2.4 Satellite Television<sup>xxxiv</sup>

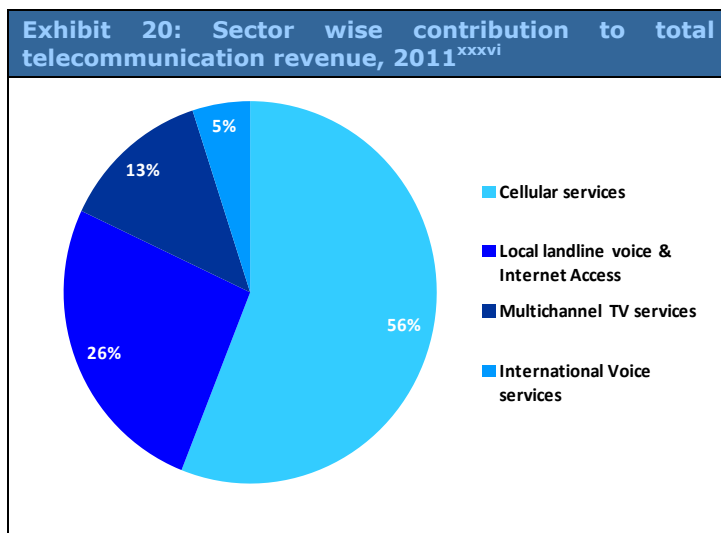
Satellite TV system works by broadcasting video and audio signals from geostationary satellites to satellite dishes on the Earth's surface. The television satellites are all in geosynchronous orbit, meaning that they stay in one place in the sky relative to the movement of the Earth. In other words, the satellite keeps pace with the earth rotation. This way, user only has to direct the dish at the satellite once, and from then on it picks up the signal without adjustment. These geostationary satellites orbit the earth in a region of space known as the Clarke Belt, which is approximately 22,300 miles above the equator. Satellite television systems transmits and receive radio signals using specialized antennas called satellite dishes. Each of these satellites carries a number of transponders, which transmits a signal back to the Earth. Evolution of satellite based television enabled option of multi-channel broadcast thus providing option of multiple channels to the user. Primarily there are three types of satellite television usage: reception direct by the end user (generally called Direct to home or DTH), reception by local television affiliates, or reception by distributors of cable systems. The satellite television provides best quality of picture and video quality and provides a variety of other services to the user.

## 6.3 Telecommunication Industry - Israel

### 6.3.1 Industry Overview<sup>xxxv</sup>

The telecommunications industry is comprised of companies that operate or provide access to facilities for voice, data, text, sound and video transmission through wired, wireless or satellite networks. The services they provide include fixed network services such as data retail, Internet retail, voice retail and wholesale services and mobile services<sup>xxxvii</sup>. The telecommunications industry in Israel has undergone significant transformation over the last two decades from being a market dominated by a single player to a sector consisting of multiple companies operating in a highly competitive business environment. This transition has been majorly driven by the numerous reforms that the country initiated at regular intervals in order to liberalize and privatize the ICT sectors. Technological advancements and massive amounts of foreign investment in the sector have further driven the telecommunications market. The entry of Mobile Virtual Network Operators (MVNOs) has been a growing trend

in the Israeli market as these new players seek to take advantage of the demand for low cost services. The downward pricing trend in the market has been the result of a substantial increase in competition as well as the introduction of policies that have promoted a multi-operator environment. As of 2011, the telecommunications sector in Israel recorded revenue of US\$8 B, representing about 4% of the GDP<sup>xxxviii</sup>. The Exhibit 20 shows the contribution of each sector to the total revenue of the Israeli telecommunication industry.



### 6.3.2 Growth Drivers

- **Technological Advancements:** Since the privatization process that started in Israel in the early 1990's, one of the biggest drivers of growth in the telecom industry has been the ability of the country to constantly innovate and develop new technologies in the information processing and telecommunications field. A major part of the local service provider's networks and applications is produced and designed by Israeli companies, many of whom are start-ups. Significant technological breakthroughs have been witnessed in areas like public switching, transmission, access network technology, wireless local loop systems, data networking devices, network management software, billing systems and value added services software. Technological expertise in areas such as Internet applications, broadband, local area networks, digital wireless devices, network security and management and telemedicine followed by intensive R&D activities and adequate support from Ministry of Industry and Trade's Chief Scientist have further expanded the size of the industry and drastically increased its contribution to the country's overall economic growth.

- **Foreign Investments:** The availability of massive foreign investment has been a key contributor to the growth of the Israeli Telecom Industry. Apart from investments in the manufacturing and R&D facilities, foreign investments have also flown into high-tech Israeli companies. The country's attractiveness to foreign investors can be further evidenced by the presence of more than 100 dedicated high-tech venture capital funds in the country. Furthermore, institutional and private investors have consistently purchased shares of Israeli companies listed on the New York Stock Exchange as well as in London and other European exchanges, thereby providing indirect investment to Israeli telecommunication companies.
- **Regulatory Environment:**<sup>xxxix</sup> The Israeli communications market has seen an unprecedented number of reforms over the last two decades. In 1994, the first step toward a more competitive telecommunications market was taken when the government owned Bezeq was required to form subsidiaries in order to provide services in sectors other than domestic, fixed wire line telephony.<sup>xl</sup> This led to the introduction of Pelephone, offering cellular services; and Bezeq International, providing international long distance services. Subsequently in September 2000, the Minister of Communications formulated regulations for the licensing of new operators entering the fixed services market thereby ending Bezeq's exclusive monopoly by law in the fixed services market. Some of the recent reforms that have completely changed the dynamics of the telecom market in the country include the interconnection rate cuts, which were aggressively reduced from NIS0.251 to NIS0.073 in 2011. This led to a substantial decrease in pricing plans as new players competed amongst each other to gain significant market shares. Another step that increased competition in the market was the simplification of the process of handset imports, whereby the regulator removed the requirement that handsets certified for US or European markets be specially approved. This move took away a competitive advantage from the operators as it limited their ability to sell handsets at higher prices. The elimination of early termination fees (the fee payable for termination of a contract) and handset subsidies further ended the long run subscription and retention strategy of Israeli mobile operators wherein they had previously attracted subscribers by offering cheaper mobile phones and long term contracts with fixed prices. Apart from regulatory reforms, Israel has also signed bilateral telecommunication agreements with 27 countries and has been an active contributor to the development of international and regional telecommunications cooperation. Thus, over the years regulatory policies have played an extremely important role in the Israeli telecom market. Going forward also, any changes in regulatory policies will be a key determinant of growth for the industry.

### 6.3.3 Fixed Telecommunication Services

The fixed services market in Israel has evolved from being a market dominated only by Bezeq to a sector comprising of multiple operators over the last two decades. Major players in the domestic fixed services market include Bezeq, HOT, 012 Telecom, Cellcom Fixed Telecommunications Services, Partner Fixed Telecommunication Services etc. According to a report titled Telecommunications in Israel 2013, the current phone-lines-to-households penetration rate is 92% and is falling drastically, primarily due to the increased usage of mobile services and broadband Internet. The report further states that broadband services had a penetration rate of 82% in 2010. Prices of Broadband Internet access have also decreased rapidly and currently stand at US\$23 a month. The increasing demand and falling prices of broadband services were mainly a function of licenses granted to cable companies to provide broadband telephony access on their modems in March 2002. Recent market developments in the fixed services market include the pace of speed upgrades among consumers with companies like Bezeq and HOT offering 100Mbps service.

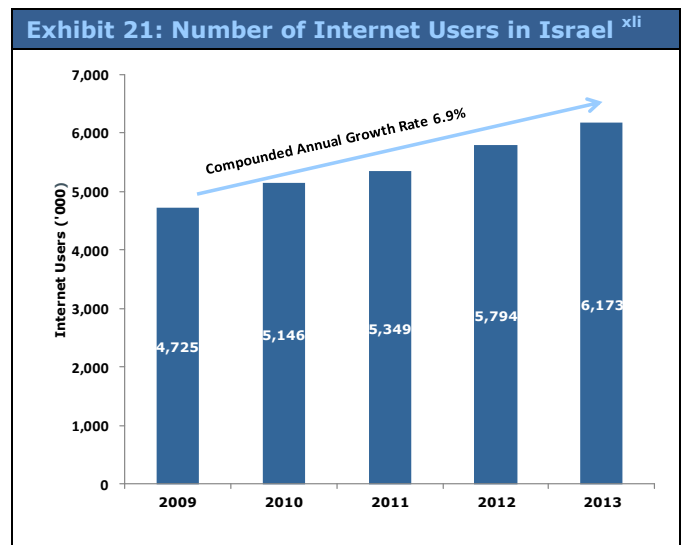
**Recent Development: Creation of Wholesale Market:** In order to provide high quality of services at a cheaper price, MoC is in process to develop a Wholesale market for Fixed Communication Services which is currently dominated by two players, Bezeq and Hot. The MoC is enforcing a new regulation by which the infrastructure owners of nationwide fixed access networks will have to offer few of their services as wholesale services to other license holders. Some of these services include Bitstream Access, Leasing of access elements (unbundling), leasing of dark fibers, duct access and transmission services ("the wholesale services"), on the basis of non-discriminatory terms. The new entrants will be allowed to use the infrastructure of the existing players to provide their services. This will encourage new players to enter as they would incur lower capital expenditure leading to increase in competition. However, the Wholesale Regulation is still under review and MoC is expected to make the final decision in around second half of 2014. Under the Wholesale Market Regulation, MoC will prescribe maximum prices under the regulations for the services. Under the current draft, the management is expecting the average wholesale pricing to be approximately NIS 50-60 per access line/month. On a much positive note, post implementation of the Wholesale Market Regulation, the company management estimates the possibility of the removal of the structural separation and the removal of the supervision over the Company's tariffs.

### 6.3.4 Cellular Telephony

The Cellular Telephony market in Israel was characterized by the introduction of competition in 1995. Major players in the sector include MNO's (Mobile Network Operators) such as Pelephone, Cellcom, Partner, Hot Mobile and Golan Telecom and MVNO's (Mobile Virtual Network Operators) such as Rami Levi, Alon Cellular and Home cellular. Recently, six more companies were given licenses to operate as MVNO's but they are yet to begin their operations. The market recorded revenue worth US\$2.91 B in 2012 with the number of subscribers at 9.9MM. As of 2011, penetration stood at approximately 130%. This rapid rise in penetration rates can be attributed to the introduction of the Calling Party Pays (CPP) method in 1994, nationwide coverage at low tariffs, superior network quality and effective marketing strategies employed by the players. Regulatory policies like lowering of the regulated rate for termination of calls on mobile networks from approximately NIS0.27 to NIS0.07 also led to increased competition and subsequent higher penetration in the country. Following the abolition of early termination fees and handset subsidies in the April 2012, subscribers were able to move freely between operators that offered the best prices. This has led to an unprecedented rise in the Israeli mobile market churn, thereby forcing operators to focus more on subscriber acquisition through effective marketing strategies and value added services. A substantial increase in competition has also ensured the continuity of the downward pricing trend in the Cellular services sector.

### 6.3.5 Internet and Broadband

Broadband Internet in Israel has now become a household product with penetration rate having grown from 4% in 2002 to approximately 82% in 2010. Major Internet service providers include 012 Smile, Bezeq International, Barak-Netvision, Golden Lines and over 45 small license holders. These participants combined serve 3MM users in the country covering more than 60% of the households and above 80% of businesses. Factors that have led to this rapid rise in broadband Internet usage include reduction in tariffs as a result of stiff competition among existing players, widespread usage of computers at work and home, introduction of several sophisticated Hebrew-language portals and a variety of Hebrew websites. The Israeli government has also contributed to the growth of the Internet in the nation by undertaking several e-government initiatives with numerous activities like license renewal, payments, taxation and viewing of court documents with government agencies being done online. Furthermore, Israel's reputation of being a world leader in developing Internet technologies and applications has also influenced local interest and usage of Internet services. A key trend that has been developing in the Broadband Internet market is the growing demand of high speed Internet in the country. Recognizing this trend, major players like Bezeq and HOT have already started investing in newer technologies and assets. While the former is completing the rollout of a fiber-to-the-curb network and beginning trials of a fiber-to-the-home network, the latter has started investing in the hybrid fiber-coaxial network to provide higher speeds. The Exhibit 21 depicts the growth in the number of Internet users in Israel.



### 6.3.6 International Telecommunications Services

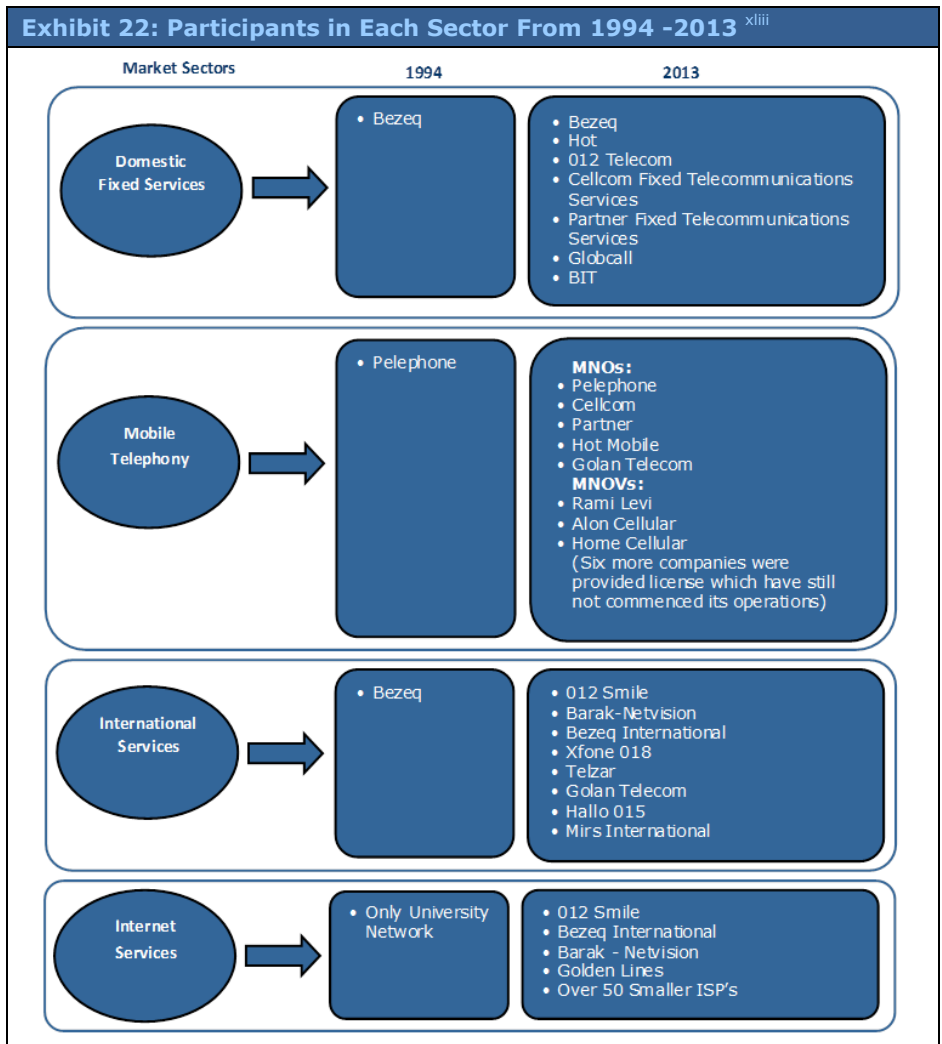
The monopoly of Bezeq International (a subsidiary of Bezeq) in the International telecommunications services market ended in July 1997, when two privately owned facility based carriers namely Golden Lines and Barak were given licenses to operate. In May 2004, additional licenses were given to Internet Gold, Xphone and Netvision. As of 2012, total number of outgoing and incoming traffic was recorded at 2.6 B minutes. Aggressive cuts in retail prices along with fair and transparent interconnection arrangements were the primary drivers of growth in the sector. Major developments in the sector include the usage of a modern digital network to deliver services, optical submarine cables, digital satellite links, modern operator facilities and advanced data communication facilities. Excessive competition in the sector has given rise to a new trend of international calling becoming a part of a bundle of services. For instance, a number of mobile operators in Israel offer unlimited international calling packages to numerous destinations.

### **6.3.7 Multichannel TV**

The multichannel subscriber television market in Israel is supervised by the Minister of Communications and regulated by the Council of Cable and Satellite TV Broadcasting. Currently, this market consists of three major players namely HOT Telecommunication Systems Ltd (known under the brand name 'HOT') offering cable TV services, DBS Satellite Services operating under the brand name 'YES' as the satellite TV operator and the Second Authority for TV and Radio offering Digital Terrestrial TV services under the brand named "IDAN Plus". Major developments in the sector include a series of reforms passed by the Minister of Communications and the Ministry of Finance in May 2013 under the Economic Arrangements bill. One of the most relevant reforms includes the introduction of a narrow broadcast package by DBS and Hot giving the Minister the authority to lower prices, to intervene in the composition of stations and the authority to require 'YES' and 'HOT' to sell these narrow broadcast packages to companies wanting to enter the television market. These reforms are expected to influence the dynamics of the multichannel market in the country in the future as they would pave the way for more competition in the sector which would further lessen the pricing power of existing players in the sector.

### 6.3.8 Competitive Landscape<sup>xliii</sup>

The Communications industry in Israel has undergone rapid changes over the last two decades. Technological advancements and changes in regulations governing the Communications industry in the country have been primarily responsible for the developments in the sector. The Ministry of Communications has consistently encouraged competition in the sector, mainly by segregating infrastructure and service providers, mandating number portability, supporting innovative technologies, and conceding new licenses at regular intervals. Favorable regulatory policies for the entry of new players have intensified competition in various sub sectors of the industry, which, in turn, has caused a substantial decrease in prices as existing and new operators aggressively compete with one another to capture valuable market share. Increased competition has also affected the structure of the industry with a number of companies in the sector adopting cooperative marketing strategies with common ownership for the supply of comprehensive communications service packages. One of the major changes in the competitive landscape of the Israeli communications market has been the change in the number and the size of participants involved in the sector. While in the past, competition was primarily among the independent communications service providers in each segment, over the years the market has consolidated with competition now among large communication groups operating in most segments of the market. The Exhibit 22 depicts the change in the number of participants involved in each sub sector in the industry from 1994 to 2013.



## 7. Valuation

The Fair Market Value of all of IGLD's shares stands between US\$252 MM and US\$292 MM as of March 26, 2014. The Fair Market Value of one of IGLD publicly traded regular shares stands between US\$13.13 and US\$15.18 as of March 26, 2014. We have used the Discounted Cash Flow method for valuation.

### 7.1 Discounted Cash flow Method

#### Valuation

Figures are in MM NIS, unless indicated otherwise.

#### WACC

Risk-free rate	3.6% <sup>xliv</sup>
Beta	1.6 <sup>xlv</sup>
Market Return	13.2% <sup>xlvi</sup>
Additional Risk Premium	0.0%
Cost of Equity	19.0%
Cost of Debt	4.2%
Terminal Growth Rate	1.0%

Year ending 31 <sup>st</sup> December	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>FCFF (High)</b>							
Net cash from operating activities	3,803	3,511	3,255	3,306	3,200	3,290	3,412
Capital Expenditure	(933)	(928)	(922)	(830)	(754)	(776)	(795)
Free Cash Flow to Equity	2,871	2,583	2,334	2,476	2,445	2,515	2,617
Discount factor	0.86	0.74	0.64	0.55	0.47	0.41	0.35
Present Value of FCF	2,473	1,918	1,493	1,365	1,161	1,029	923
<b>FCFF (Low)</b>							
Net cash from operating activities	3,800	3,495	3,227	3,264	3,155	3,237	3,342
Capital Expenditure	(923)	(911)	(897)	(806)	(731)	(749)	(766)
Free Cash Flow to Equity	2,877	2,583	2,330	2,458	2,424	2,488	2,576
Discount factor	0.86	0.74	0.64	0.55	0.47	0.41	0.35
Present Value of FCF	2,479	1,918	1,490	1,355	1,151	1,018	908

Arrowhead Fair Value Bracket	High	Low
Terminal Value (TV)	17,550	17,274
Present Value of TV	6,186	6,089
Present value of FCF	10,361	10,319
Present Value of FCF + TV	16,547	16,408
Net Debt	13,423	13,423
<b>Equity Value Bracket</b>	1,026	887
Shares on issue (MM)	19	19
<b>Fair Share Value Bracket (\$)</b>	<b>15.18</b>	<b>13.13</b>
Current Market price (\$)	10.11	10.11
Current Market Cap. (\$) MM	194.1	194.1
<b>Target Market Cap. Bracket (\$) MM</b>	292	252

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### Approach for Discounted Cash Flow (DCF)

**Time Horizon:** The Arrowhead fair valuation for IGLD is based on DCF Method. The time period chosen for the valuation is 84 months (FY2014E- FY2020E).

**Terminal Value:** Terminal Value is estimated to depend on a terminal growth rate of 1.0%

**Prudential nature of valuation:** It should be noted that this Arrowhead Fair Value Bracket estimate is a relatively prudential estimate, as it discounts the eventuality of any of new products launched or sold off in the market or any significant change in the Company strategy.

**Key variables:** The upper and lower bounds in the estimation correspond to the extreme positions taken by the following key variables:

#### Variable 1 – Fixed-line telephony: Total Access Lines Growth rate

Exhibit 23: Total Access lines Growth Rate							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	(22.0%)	(26.0%)	(26.0%)	(21.0%)	2.0%	2.0%	2.0%
<b>High estimate</b>	(20.0%)	(25.0%)	(20.0%)	(20.0%)	3.0%	3.0%	3.0%

#### Variable 2 – Broadband Internet Lines Growth Rate

Exhibit 24: Broadband Internet Lines Growth Rate							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	6.0%	5.0%	5.0%	4.8%	4.7%	4.6%	4.5%
<b>High estimate</b>	6.2%	5.4%	5.1%	4.9%	4.8%	4.7%	4.6%

#### Variable 3 – Cellular communication: Subscribers Growth Rate

Exhibit 25: Cellular communication: Subscribers Growth Rate							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	(5.0%)	(5.0%)	(3.0%)	(3.0%)	(2.0%)	1.0%	1.0%
<b>High estimate</b>	(4.0%)	(4.0%)	(2.0%)	(2.0%)	(1.0%)	1.0%	1.0%

#### Variable 4 – Cellular communication: ARPU

Exhibit 26: ARPU							
	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Low estimate</b>	87	86	85	84	84	84	83
<b>High estimate</b>	88	87	86	85	84	84	83

### **Important information on Arrowhead methodology**

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent depending on the subsectors in which the research is conducted, but all Arrowhead valuation research possesses an underlying set of common principles and a generally common quantitative process.

With Arrowhead Commercial and Technical Due Diligence, Arrowhead extensively researches the fundamentals, assets and liabilities of a Company, and builds solid estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance, such as price/earnings ratios, indicated as applicable, are present mainly for reference purposes. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

Elements of comparison, such as multiple analyses, may be to some limited extent integrated in the valuation on a project-by-project or asset-by-asset basis. In the case of this IGLD report, there are no multiple analyses integrated in the valuation.

### **Arrowhead BID Fair Market Value Bracket**

The Arrowhead Fair Market Value is given as a bracket. This is based on a quantitative key variable analysis, such as key price analysis for revenue and cost drivers, or analysis and discounts on revenue estimates for projects, especially relevant to those projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a tool for valuation. The high-bracket DCF valuation is derived from the high-bracket key variables while the low bracket DCF valuation is based on the low bracket key variables.

In principle, an investor who is comfortable with the high-brackets of our key variable analysis will align with the high-bracket in the Arrowhead Fair Value Bracket, and likewise in terms of low estimates. The investor will also take into account the Company intangibles – as presented in the initial pages of this document in the analysis on strengths and weaknesses and on other essential Company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in the investor's own analysis.

The bracket should be understood as a tool provided by Arrowhead BID for the reader of this report and the reader should not solely rely on this information to make his decision on any particular security. The reader must also understand that on one hand, global capital markets contain inefficiencies, especially in terms of information, and that on the other hand, corporations and their commercial and technical positions evolve rapidly: this present edition of the Arrowhead valuation is for a short to medium-term alignment analysis (one to twelve months). The reader should refer to important disclosures on page 29 of this report.

## 8. Appendix

### 8.1 IGLD's Financial Summary

<b>Exhibit 31: Financial Summary</b>		<i>High Bracket Estimates</i>								
<i>Year Ending December</i>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Revenue (NIS MM)	11,376	10,278	9,563	9,329	9,277	9,217	9,224	9,430	9,697	9,940
Operating Profit (NIS MM)	1,479	1,935	2,024	2,028	2,031	2,040	2,060	2,121	2,201	2,300
Net Income (NIS MM)	30	719	835	734	758	788	830	906	990	1,087
EPS	(13.86)	(1.93)	0.57	12.05	13.29	14.83	17.02	20.98	25.37	30.40
<b>Growth rates (%)</b>										
Revenue	30.3%	(9.7%)	(7.0%)	(2.4%)	(0.6%)	(0.7%)	0.1%	2.2%	2.8%	2.5%
Operating Profit	20.3%	30.8%	4.6%	0.2%	0.1%	0.4%	1.0%	3.0%	3.8%	4.5%
Net Income	(86.4%)	2296.7%	16.1%	(12.1%)	3.2%	3.9%	5.3%	9.2%	9.3%	9.8%
EPS	NM	NM	NM	2003.4%	10.3%	11.6%	14.8%	23.3%	20.9%	19.9%
<b>Margins (%)</b>										
Gross Margins	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Profit Margin	13.0%	18.8%	21.2%	21.7%	21.9%	22.1%	22.3%	22.5%	22.7%	23.1%
Net Profit Margin	0.3%	7.0%	8.7%	7.9%	8.2%	8.5%	9.0%	9.6%	10.2%	10.9%
<b>Ratios</b>										
ROA	0.1%	3.2%	3.9%	3.1%	3.2%	3.4%	3.7%	4.1%	4.5%	5.0%
ROE	0.7%	20.7%	26.4%	22.3%	22.0%	21.7%	21.6%	22.2%	22.7%	23.1%
Debt/Equity	3.6x	4.2x	4.5x	5.0x	4.7x	4.2x	3.8x	3.5x	3.1x	2.8x
Interest Coverage	1.4x	1.9x	2.0x	1.7x	1.8x	1.8x	1.9x	2.1x	2.2x	2.4x
Price /Earnings Ratio (PE)	NM	NM	62.3x	3.0x	2.7x	2.4x	2.1x	1.7x	1.4x	1.2x

<b>Exhibit 32: Financial Summary</b>		<i>Low Bracket Estimates</i>								
<i>Year Ending December</i>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Revenue (NIS MM)	11,376	10,278	9,563	9,229	9,115	8,974	8,957	9,132	9,359	9,577
Operating Profit (NIS MM)	1,479	1,935	2,024	1,989	1,987	1,973	1,993	2,048	2,115	2,195
Net Income (NIS MM)	30	719	835	706	723	735	774	844	917	1,000
EPS	(13.86)	(1.93)	0.57	10.56	11.47	12.06	14.13	17.77	21.58	25.86
<b>Growth rates (%)</b>										
Revenue	30.3%	(9.7%)	(7.0%)	(3.5%)	(1.2%)	(1.5%)	(0.2%)	2.0%	2.5%	2.3%
Operating Profit	20.3%	30.8%	4.6%	(1.7%)	(0.1%)	(0.7%)	1.0%	2.8%	3.3%	3.8%
Net Income	(86.4%)	2296.7%	16.1%	(15.5%)	2.5%	1.6%	5.4%	9.0%	8.7%	9.0%
EPS	NM	NM	NM	1743.1%	8.6%	5.2%	17.1%	25.8%	21.5%	19.8%
<b>Margins (%)</b>										
Gross Margins (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Profit Margin	13.0%	18.8%	21.2%	21.6%	21.8%	22.0%	22.2%	22.4%	22.6%	22.9%
Net Profit Margin	0.3%	7.0%	8.7%	7.6%	7.9%	8.2%	8.6%	9.2%	9.8%	10.4%
<b>Ratios</b>										
ROA	0.1%	3.2%	3.9%	3.0%	3.1%	3.2%	3.4%	3.8%	4.2%	4.6%
ROE	0.7%	20.7%	26.4%	21.5%	21.1%	20.4%	20.5%	21.0%	21.4%	21.8%
Debt/Equity	3.6x	4.2x	4.5x	5.1x	4.7x	4.3x	3.9x	3.6x	3.2x	2.9x
Interest Coverage	1.4x	1.9x	2.0x	1.7x	1.7x	1.8x	1.9x	2.0x	2.1x	2.3x
Price /Earnings Ratio (PE)	NM	NM	62.3x	3.4x	3.1x	3.0x	2.5x	2.0x	1.7x	1.4x

## 8.2 IGLD's Balance Sheet Forecast

**Exhibit 33: Consolidated Balance Sheet** all figures in NIS MM, unless stated differently *High Bracket estimates*

Year Ending December	2011A	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total current assets	6,719	5,963	6,067	9,804	10,381	10,657	11,109	11,736	12,410	13,218
Total Non-current assets	18,540	16,844	15,342	14,072	13,054	12,293	11,388	10,508	9,595	8,646
<b>TOTAL ASSETS</b>	<b>25,259</b>	<b>22,807</b>	<b>21,409</b>	<b>23,876</b>	<b>23,435</b>	<b>22,951</b>	<b>22,496</b>	<b>22,244</b>	<b>22,006</b>	<b>21,864</b>
Total current Liabilities	4,787	4,899	4,111	3,106	3,172	3,169	3,022	3,070	3,050	2,562
Total Non-current Liabilities	16,231	14,427	14,135	17,472	16,813	16,152	15,638	15,093	14,587	14,587
<b>TOTAL LIABILITIES</b>	<b>21,018</b>	<b>19,326</b>	<b>18,246</b>	<b>20,578</b>	<b>19,985</b>	<b>19,321</b>	<b>18,660</b>	<b>18,162</b>	<b>17,637</b>	<b>17,149</b>
Total Shareholder's Equity	4,241	3,481	3,163	3,298	3,450	3,630	3,836	4,081	4,369	4,715
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>25,259</b>	<b>22,807</b>	<b>21,409</b>	<b>23,876</b>	<b>23,435</b>	<b>22,951</b>	<b>22,496</b>	<b>22,244</b>	<b>22,006</b>	<b>21,864</b>

**Exhibit 34: Consolidated Balance Sheet** all figures in NIS MM, unless stated differently *Low Bracket estimates*

Year Ending December	2011A	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total current assets	6,719	5,963	6,067	9,804	10,397	10,698	11,179	11,836	12,538	13,365
Total Non-current assets	18,540	16,844	15,342	14,063	13,031	12,250	11,326	10,430	9,499	8,531
<b>TOTAL ASSETS</b>	<b>25,259</b>	<b>22,807</b>	<b>21,409</b>	<b>23,867</b>	<b>23,428</b>	<b>22,948</b>	<b>22,506</b>	<b>22,265</b>	<b>22,036</b>	<b>21,896</b>
Total current Liabilities	4,787	4,899	4,111	3,082	3,135	3,124	2,972	3,014	2,989	2,535
Total Non-current Liabilities	16,231	14,427	14,135	17,500	16,866	16,232	15,749	15,236	14,766	14,766
<b>TOTAL LIABILITIES</b>	<b>21,018</b>	<b>19,326</b>	<b>18,246</b>	<b>20,582</b>	<b>20,001</b>	<b>19,356</b>	<b>18,721</b>	<b>18,250</b>	<b>17,755</b>	<b>17,301</b>
Total Shareholder's Equity	4,241	3,481	3,163	3,285	3,427	3,593	3,785	4,015	4,282	4,595
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>25,259</b>	<b>22,807</b>	<b>21,409</b>	<b>23,867</b>	<b>23,428</b>	<b>22,948</b>	<b>22,506</b>	<b>22,265</b>	<b>22,036</b>	<b>21,896</b>

## 9. Analyst Certifications

I, Snehal Mahajan, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

### Important disclosures

Arrowhead Business and Investment Decisions, LLC received fees in 2013 and 2014 from Internet Gold – Golden Lines Ltd for researching and drafting this report and for a series of other services to IGLD including distribution of this report and financial research services. Neither Arrowhead BID nor any of its principals or employees owns any long or short positions in IGLD.

Aside from certain reports published on a periodic basis, the large majority of reports are published by Arrowhead BID at irregular intervals as appropriate in the analyst's judgment.

Any opinions expressed in this report are statements of Arrowhead BID's judgment to this date and are subject to change without notice.

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Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary.

Investors are advised to gather and consult multiple sources of information while preparing their investment decisions. Recipients of this report are strongly advised to read the *Information on Arrowhead Methodology* section of this report to understand if and how the Arrowhead Due Diligence and Arrowhead Fair Value Bracket integrate alongside the rest of their stream of information and within their decision making process.

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## 10. Notes and References

i	Source: Bloomberg, March 25, 2014
ii	52 weeks to March 25, 2014. Source: Bloomberg, March 25, 2014
iii	3 months to March 25, 2014. Source: Bloomberg, March 25, 2014
iv	Source: Bezeq Investor Presentation FY 2013
v	Source: Bezeq Press Release Dated January 15, 2014 – Wholesale Regulation
vi	Arrowhead Business and Investment Decisions Fair Value Bracket – AFVBTM. See information on valuation on pages 24-26 of this report and important disclosures on page 29 of this report.
vii	Source: Bezeq Press Release Dated January 15, 2014 – Wholesale Regulation
viii	Source: IGLD, Annual Report 2012
ix	Source: IGLD, Presentation February 2014
x	Source: Bezeq, Annual Report, 2012
xi	Source: Bezeq Investor Presentation FY 2013
xii	Source: Bezeq, Annual Report, 2012
xiii	Source: Bezeq Investor Presentation, FY 2013
xiv	Source: <a href="http://www.bezeqonline.com/about_us.html">http://www.bezeqonline.com/about_us.html</a>
xv	Source: IGLD, Annual Report, 2012
xvi	Source: Company Management
xvii	Source: Company Management
xviii	Source: Arrowhead BID estimate
xix	Source: IGLD web site – News section
xx	Source: IGLD web site – News section
xxi	Source: Bezeq web site – News section
xxii	Source: IGLD, Annual Report, 2012
xxiii	Source: <a href="http://www.ie.itcr.ac.cr/acotoc/Maestria_en_Computacion/Sistemas_de_Comunicacion_II/Material/Biblio5.pdf">http://www.ie.itcr.ac.cr/acotoc/Maestria_en_Computacion/Sistemas_de_Comunicacion_II/Material/Biblio5.pdf</a>
xxiv	Source: <a href="http://www.swisscom.ch/en/ghq/portrait/the-swisscom-network/all-about-fixed-line-communications/technology-in-fixed-line-communications.html">http://www.swisscom.ch/en/ghq/portrait/the-swisscom-network/all-about-fixed-line-communications/technology-in-fixed-line-communications.html</a>
xxv	Source: <a href="http://en.wikipedia.org/wiki/Next-generation_network#Underlying_technology_components">http://en.wikipedia.org/wiki/Next-generation_network#Underlying_technology_components</a>
xxvi	Source: <a href="http://connect-world.com/~cwiml/index.php/component/k2/item/16692-next-generation-network-ngn-the-future-of-telecommunication">http://connect-world.com/~cwiml/index.php/component/k2/item/16692-next-generation-network-ngn-the-future-of-telecommunication</a>
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xxviii	Source: <a href="http://en.wikipedia.org/wiki/Fiber-optic_communication">http://en.wikipedia.org/wiki/Fiber-optic_communication</a>
xxix	Source: <a href="http://www.engineersgarage.com/articles/wireless_communication">http://www.engineersgarage.com/articles/wireless_communication</a>
xxx	Source: <a href="http://wsl.stanford.edu/~andrea/Wireless/SampleChapters.pdf">http://wsl.stanford.edu/~andrea/Wireless/SampleChapters.pdf</a>
xxxi	Source: <a href="http://edu.eap.gr/pli/pli23/documents/Parallila_Keimena/Cellular_Communications.pdf">http://edu.eap.gr/pli/pli23/documents/Parallila_Keimena/Cellular_Communications.pdf</a>
xxxii	Source: <a href="http://www.fcc.gov/guides/voice-over-internet-protocol-voip">http://www.fcc.gov/guides/voice-over-internet-protocol-voip</a>
xxxiii	Source: <a href="http://www.broadband.gov/broadband_advantages.html">http://www.broadband.gov/broadband_advantages.html</a>
xxxiv	Source: <a href="http://www.tech-faq.com/satellite-tv.html">http://www.tech-faq.com/satellite-tv.html</a>
xxxv	Source: <a href="http://www.moc.gov.il/sip_storage/FILES/5/605.pdf">http://www.moc.gov.il/sip_storage/FILES/5/605.pdf</a>
xxxvi	Source: IGLD, Annual Report 2012
xxxvii	Source: <a href="http://en.wikipedia.org/wiki/Telecommunications_in_Israel">http://en.wikipedia.org/wiki/Telecommunications_in_Israel</a>
xxxviii	Source: IGLD, Annual Report 2012

xxxix	Source: <a href="http://ftp5.bizportal.co.il/web/giflib/dindata/analyst/pdf/goldman_sachs_-_feb_2013.pdf">http://ftp5.bizportal.co.il/web/giflib/dindata/analyst/pdf/goldman_sachs_-_feb_2013.pdf</a>
xl	Source: <a href="http://www.moc.gov.il/sip_storage/FILES/5/605.pdf">http://www.moc.gov.il/sip_storage/FILES/5/605.pdf</a>
xli	Source: <a href="http://www.euromonitor.com/israel/country-factfile">http://www.euromonitor.com/israel/country-factfile</a>
xlii	Source: IGLD, Annual Report 2012
xliii	Source: <a href="http://www.moc.gov.il/sip_storage/FILES/5/605.pdf">http://www.moc.gov.il/sip_storage/FILES/5/605.pdf</a>
xliv	Source: Bloomberg, March 25, 2014
xlvi	Source: Bloomberg, March 25, 2014
xlvi	Source: Bloomberg, March 25, 2014
xlvi	Source: Bloomberg, March 25, 2014