

BEZEQ Group



Investor Presentation First Quarter 2011

May 2011

Forward-Looking Information and Statement

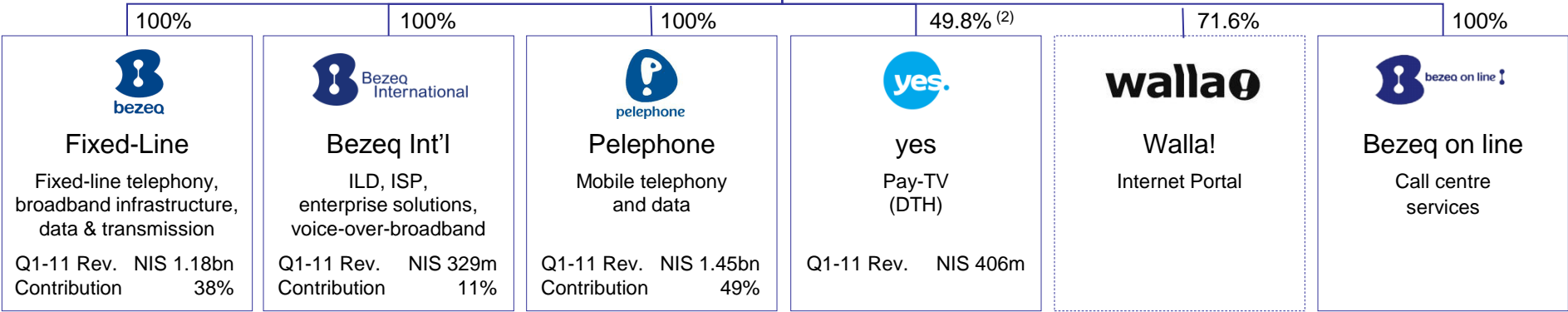


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Bezeq Group Profile



Listed on TASE

Notes:

1. B Communications Ltd. is controlled by Internet Gold – Golden Lines Ltd. (75.3%), which is controlled by Eurocom Communications Ltd. (70%).
2. Following a Supreme Court decision which prevents Bezeq from getting control of yes, as of August 21, 2009, Bezeq ceased consolidating yes' financial results and started accounting for its investment in yes according to the equity method.

Bezeq Group Q1 2011 Highlights

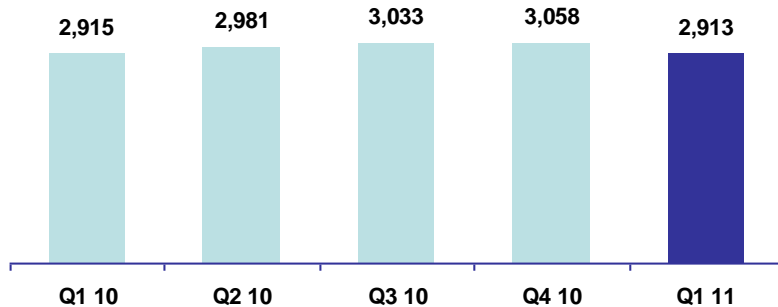


Revenues & Profitability

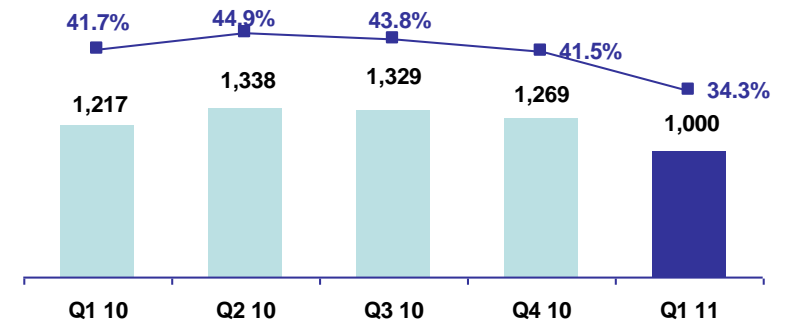
Revenues stable YoY despite reduction in MTRs and increased competition

- Consolidated revenues impacted by reduction of approximately NIS 350 million due to decrease in mobile termination rates in Bezeq Fixed-line and Pelephone
- Pelephone equipment sales reached NIS 501 million, up 74.6% YoY vs. NIS 287 million in Q1 10
- Q1 2011 operating profit, net profit, and EBITDA were impacted by a NIS 285 million provision for early employee retirement.

Consolidated Revenue NIS MM



Consolidated EBITDA NIS MM



Bezeq Group Q1 2011 Highlights

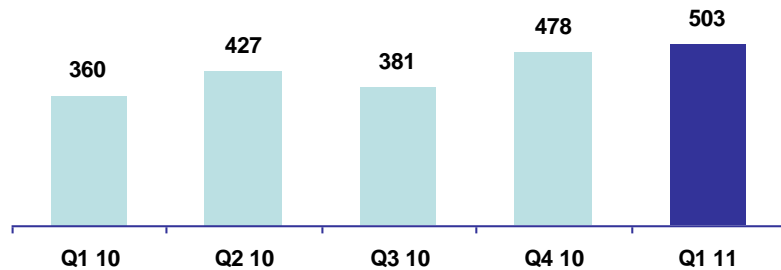


CapEx & Cash Flows

Strategic capex investments

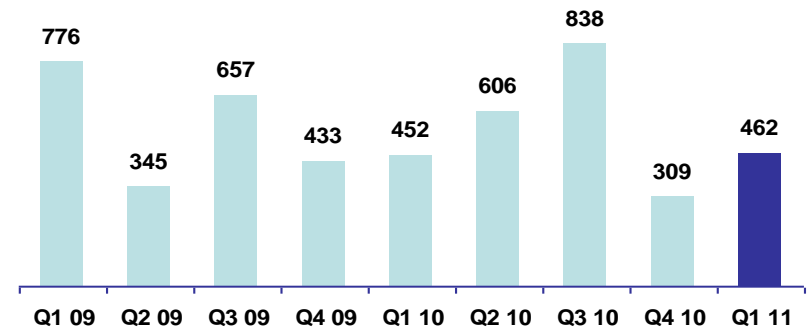
- ⚡ Bezeq Fixed-Line progresses with NGN deployment, generating operational benefits with rollout of higher value subscriber access packages
- ⚡ Pelephone's HSPA network drives increase in data revenues
 - ⚡ 51% of Pelephone's subscribers were on the HSPA network as of March 31, 2011
 - ⚡ Increase in competition resulted in increased churn and decreasing tariffs
- ⚡ Bezeq International investment in submarine cable proceeding on target

Consolidated CapEx NIS MM



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

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



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

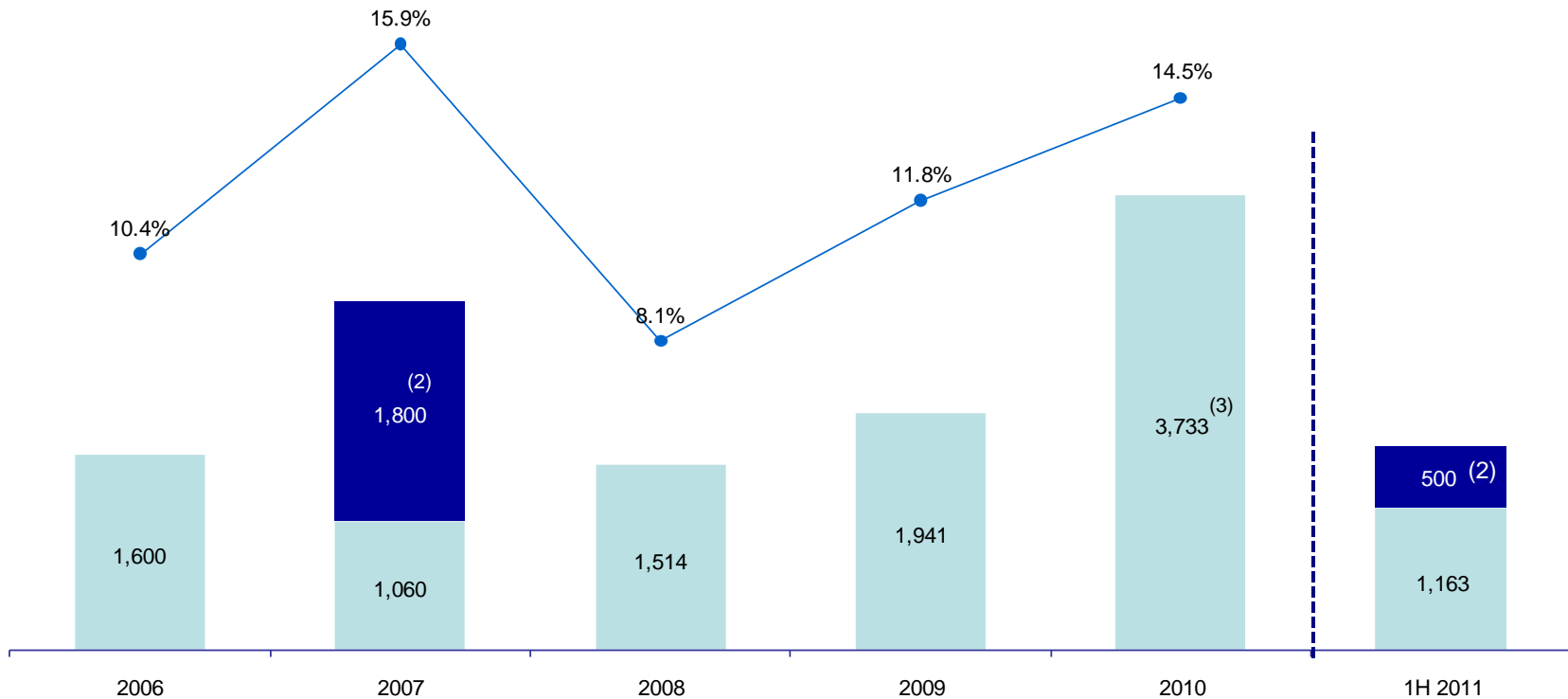


Bezeq Group Q1 2011 Highlights

Creating Shareholder Value

Attractive shareholder remuneration

- ⚡ NIS 1.663 bn cash dividend including regular (NIS 1,163 million) and special dividend (NIS 500 million), approximately NIS 0.61 per share to be paid on May 19, 2011.
- ⚡ NIS 3 bn capital reduction for the years 2011-2013 provides long-term investment horizon.



1. Calculated as regular and special dividends paid during the fiscal year, divided by the market capitalization as of December 31 of the previous year

2. Capital reduction

3. Includes one-time gain from yes' deconsolidation of NIS 1.5bn.



Regulatory Environment



Fixed-Line

- MoC-appointed Hayek committee submitted interim report recommending fixed-line wholesale regime, roadmap for cancellation of structural separation and cancellation of Bezeq's tariff supervision. The final report is expected in Q2 2011

Mobile

- Regulator promotes increased competition through:
 - MTRs cut by approximately 70% as of Jan 2011;
 - 3 MVNO licensees have signed agreements with existing operators, commercial launch expected in Q3-2011
 - Two additional MNOs expected in 2012
 - Cancellation of exit fees in Q1-11 increases competition and churn

ISP, International long distance

- New competitors into ISP segment
- Merger between Partner and 012 Smile received regulatory approval

Pay-TV

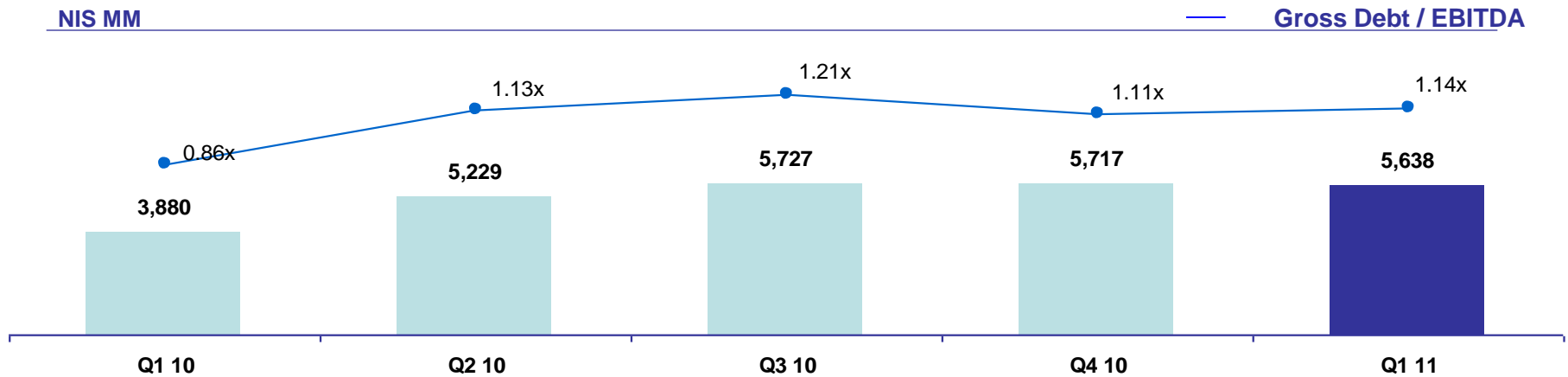
- Expected introduction of 'narrow package' by pay-TV operators
- Gov't approved expansion of DTT service scope



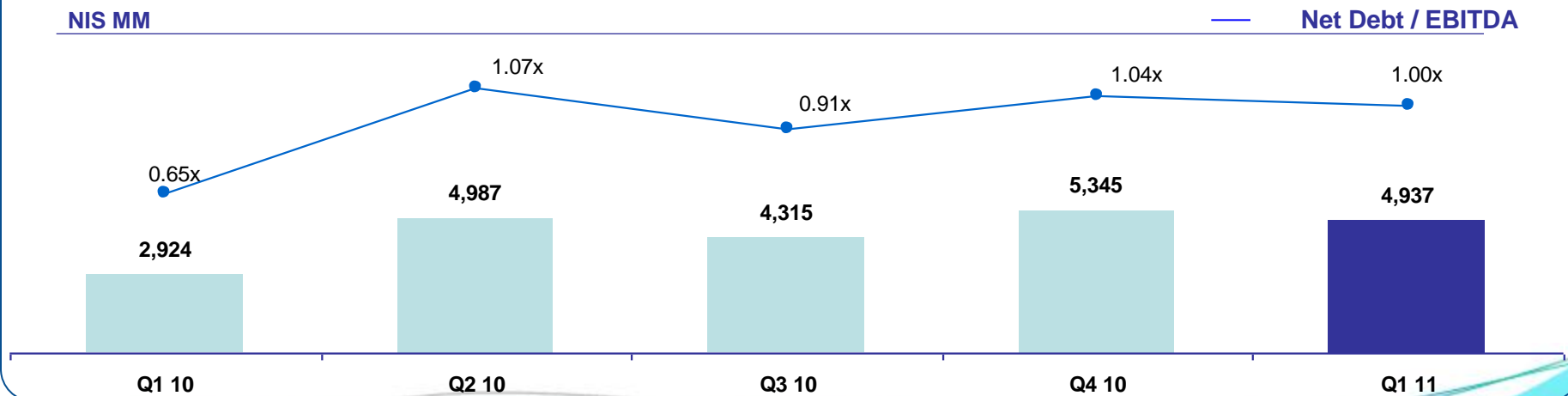
Group Financial Profile

Strong financial profile allows for attractive shareholder remuneration

Group Gross Debt
NIS MM



Group Net Debt
NIS MM





**Bezeq
Fixed-Line**

Bezeq Fixed-Line Q1 2011 Highlights

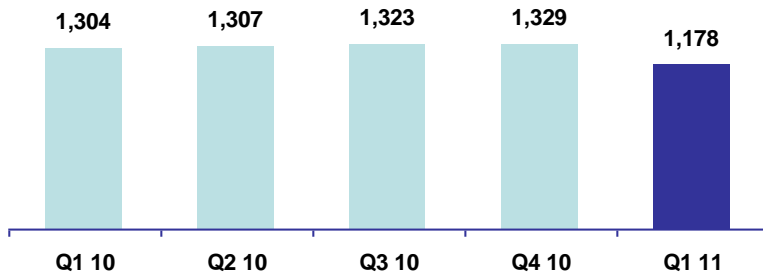


Revenues & Profitability

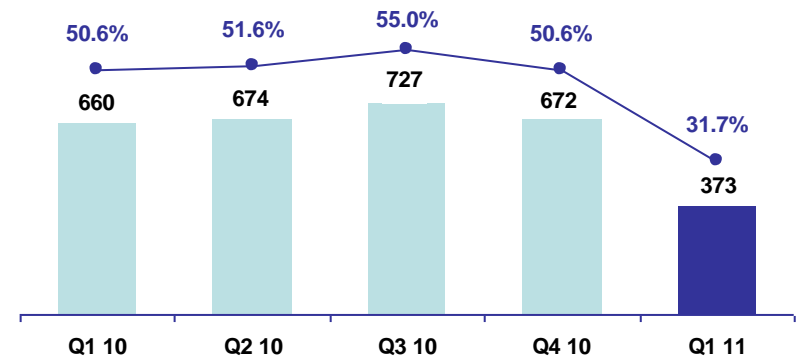
Revenue growth after exclusion of mobile interconnect fees; Early retirement provision impacts profitability

- Reduction in mobile interconnect fees negatively impacted revenues by NIS 137 million. After exclusion of such reduction, revenues grew by 1% vs. Q1 10 for the second consecutive quarter.
- Q1 11 operating profit, net profit, and EBITDA were impacted by a NIS 285 million provision for early retirement. EBITDA of NIS 373 million, down 43.5% YoY, for an EBITDA margin of 31.7%.

Fixed-Line Revenue NIS MM



Fixed-Line EBITDA NIS MM



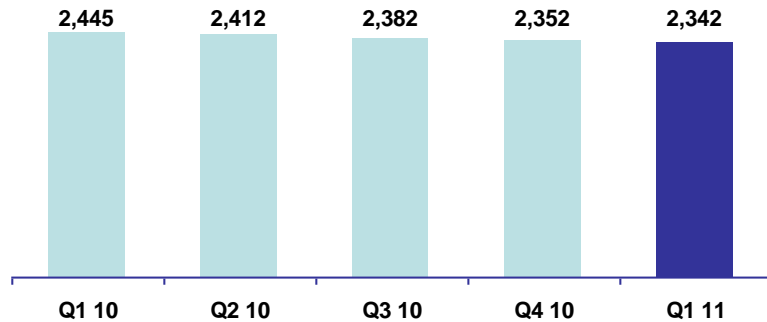
Bezeq Fixed-Line Q1 2011 Highlights



Key Performance Indicators

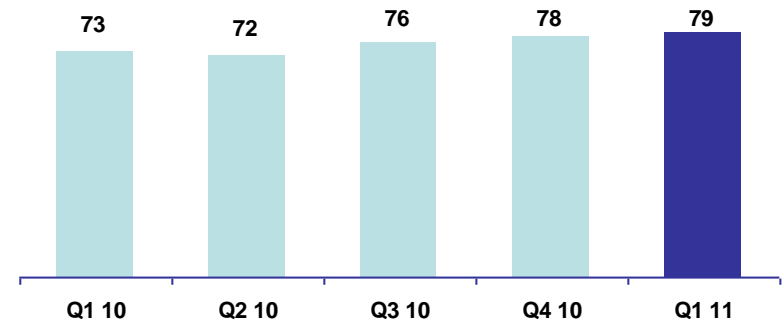
- NGN generates operational benefits with rollout of higher value subscriber access packages
 - Broadband Internet ARPU increased 8.2% YoY to NIS 79, led by bandwidth upgrades
 - 37% penetration of NGN tariff plans among Bezeq's broadband Internet customers with NGN access
 - Average broadband Internet bandwidth increased 60% YoY to 4.8 Mbps
- Loss of access lines slows to 10k lines in Q1 11 vs. 30k in Q1 10

Access Lines ⁽¹⁾ '000



1. Excludes public coin operated payphones.

Broadband Internet ARPU (NIS/Month)



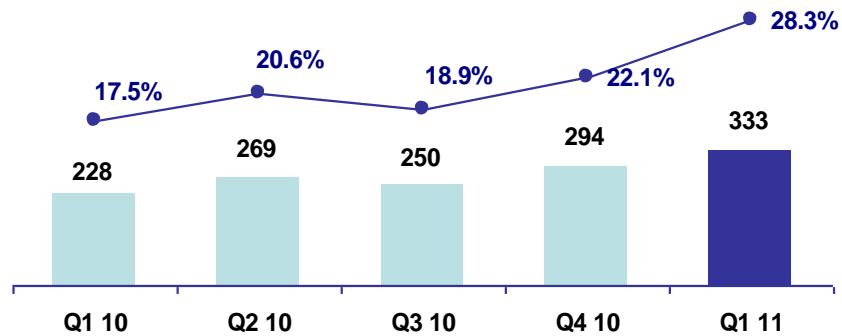
Bezeq Fixed-Line Q1 2011 Highlights



CapEx & Cash Flows

- Capex increased 46.1% YoY to NIS 333 million, as capex-to-sales expanded to 28.3% versus 17.5% in Q1 10, primarily due to investments in NGN
- Operating cash flow was NIS 419 million, up 6.6% YoY.

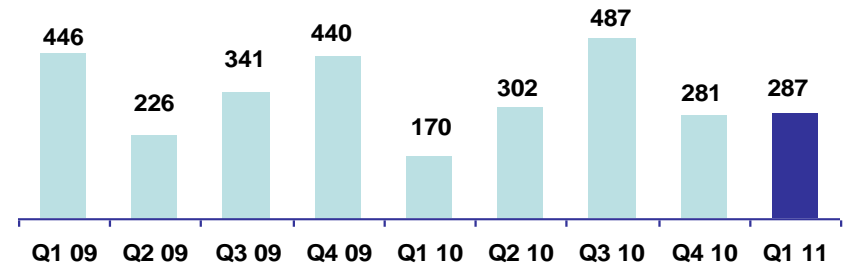
Fixed-Line Gross Capex NIS MM



— Gross capex as % of sales

Note: capital expenditures (CapEx) cited on accounting basis

Fixed-Line Free Cash Flow ⁽¹⁾ NIS MM



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



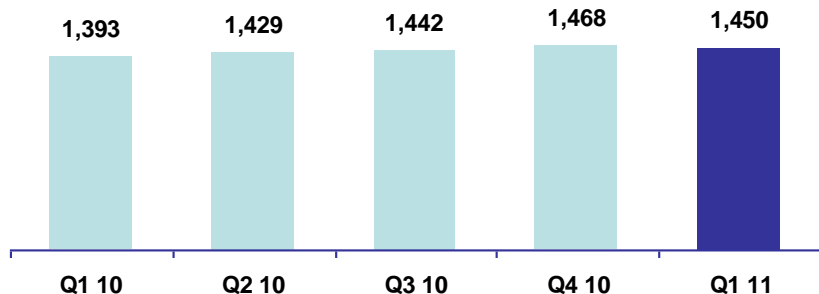
pelephone

Revenues & Profitability

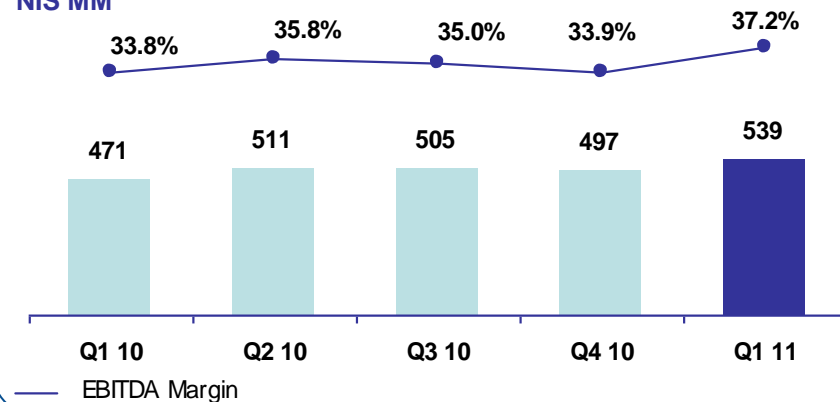
Significant increase in revenue from equipment sales offsets reduction in service revenues

- Total revenues grew 4.1% YoY to NIS 1.45 bn despite approximately NIS 213 million negative impact due to reduction in mobile termination rates.
- Service revenues decreased 14.2% YoY, due to the reduction in mobile termination rates.
- Equipment revenues increased 74.6% YoY to NIS 501 million vs. 287 million in Q1 10.
- EBITDA increased 14.4% YoY to NIS 539 million, for a 37.2% EBITDA margin versus 33.8% in Q1 10.
- Net profit grew 19.7% YoY to NIS 310 million vs. NIS 259 million in Q1 10.

Pelephone Revenue
NIS MM



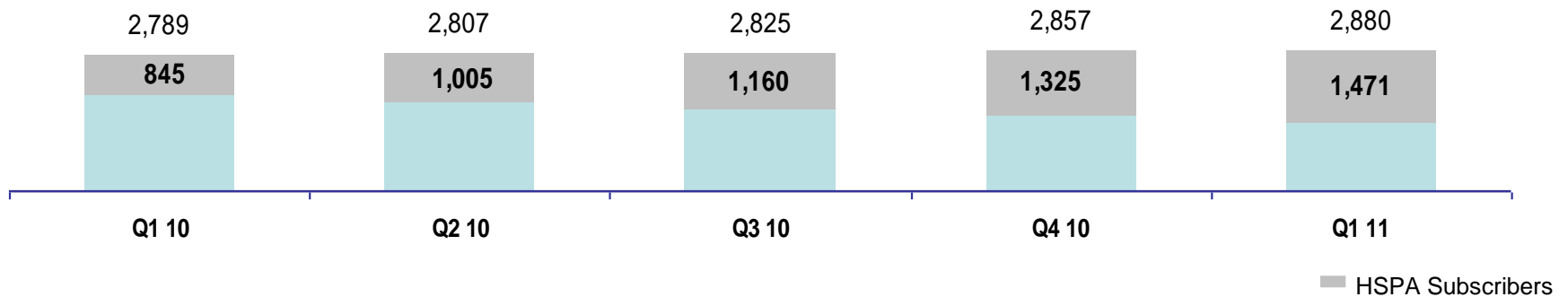
Pelephone EBITDA
NIS MM



Key Performance Indicators

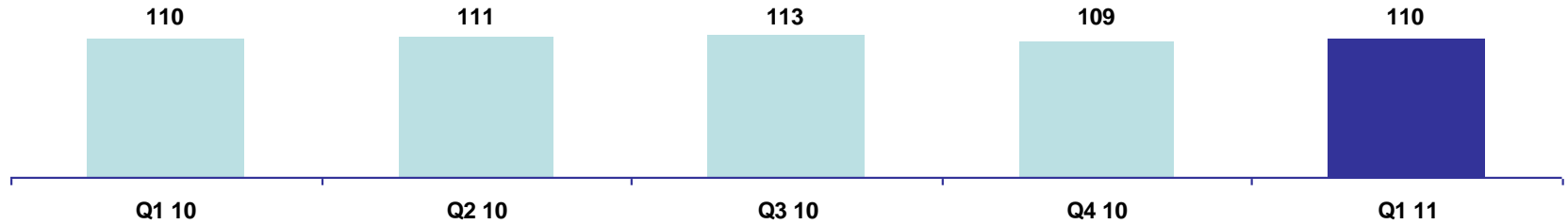
- Record data revenues; Increase in competition impacts churn and ARPU
- 51% of Pelephone's subscribers were on the HSPA network as of March 31, 2011.
- Revenues from data, VAS and content reached an Israeli industry high 32.1% of cellular service revenues in Q1 2011.
- ARPU was NIS 110 in Q1 2011, stable vs. Q1 10 after adjusting for reduced MTRs.
- MOU increased to 359 minutes in Q1 11, up 6.8% YoY
- Churn rate increased to 4.3% vs. 3.9% in Q1 10 due to increased competition.

Subscribers '000



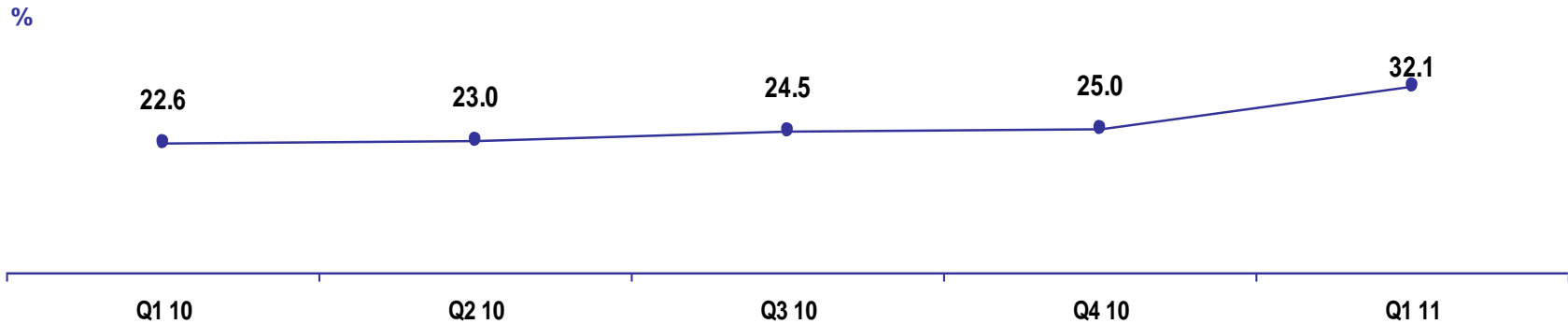
Significant growth in usage of data, VAS, and content services

ARPU ⁽¹⁾ NIS/Month



(1) Retroactively adjusted based on reduced mobile termination rates effective Jan 1, 2011

Data, VAS, and content revenue as a percentage of cellular service revenue

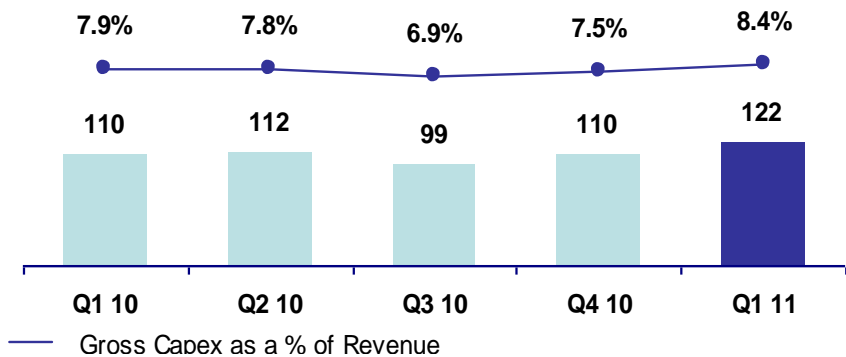


CapEx & Cash Flows

Installment payments on equipment sales led to decreased operating and free cash flows

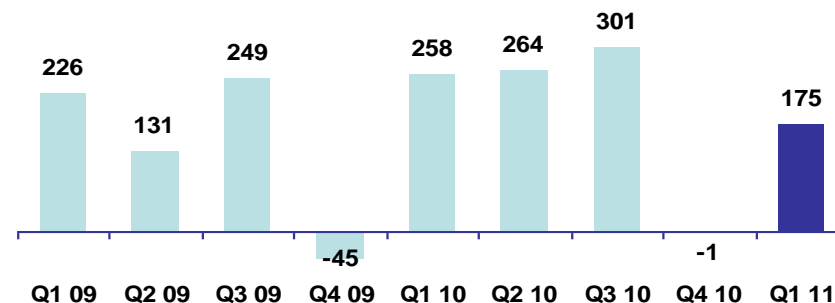
- ⋮ Operating cash flow reached NIS 308 million, down 12.0% YoY
- ⋮ FCF reached NIS 175 million, down 32.2% YoY

Pelephone Gross Capex
NIS MM



Note: capital expenditures (CapEx) cited on accounting basis

Pelephone Free Cash Flow ⁽¹⁾
NIS MM



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

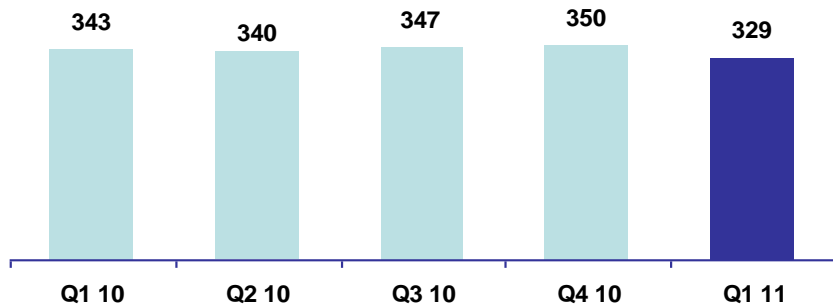


Bezeq
International

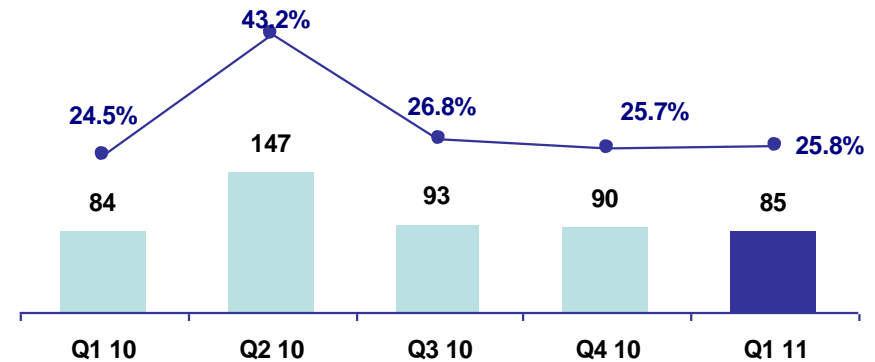
Revenues & Profitability

- EBITDA growth despite a contraction in ILD market
- Revenues reached NIS 329 million in Q1 11, down 4.0% YoY, driven by reduction in ILD and hubbing activities
- EBITDA reached NIS 85 million, up 1.2% YoY, for an EBITDA margin of 25.8% vs. 24.5% in Q1 10

Bezeq International Revenue
NIS MM



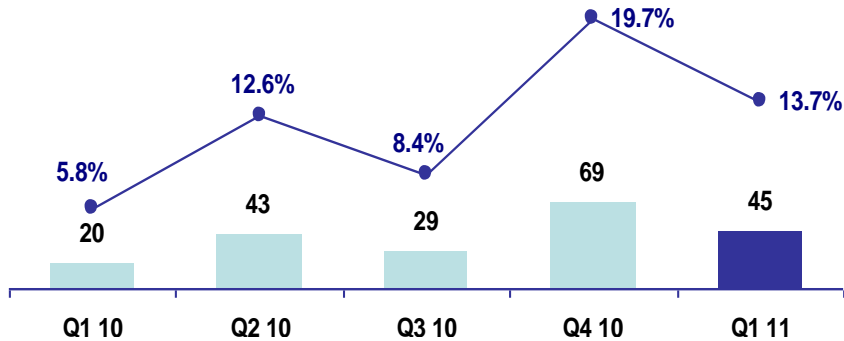
Bezeq International EBITDA
NIS MM



CapEx & Cash Flows

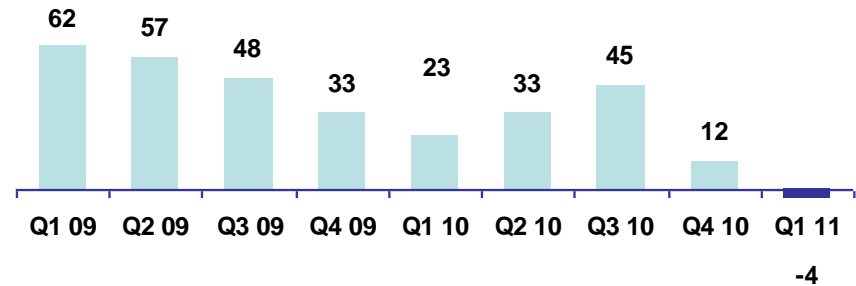
- Capex increased 125% YoY to NIS 45 million, as capex-to-sales expands to 13.7% versus 5.8% in Q1 10, primarily due to investment in submarine cable
 - Operating cash flow reached NIS 42 million, down 29.3% YoY, due to working capital timing differences
 - FCF of NIS (4) million v. NIS 23 million in Q1 10, due to increased capital expenditures relating to submarine cable

Bezeq International Gross Capex
NIS MM



Note: capital expenditures (CapEx) cited on accounting basis

Bezeq International Free Cash Flow (1)
NIS MM



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

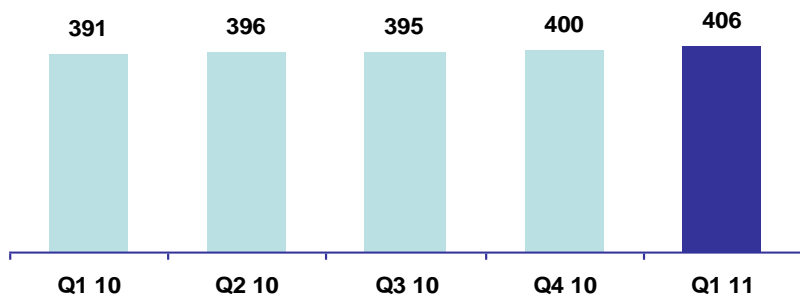


Revenues & Profitability

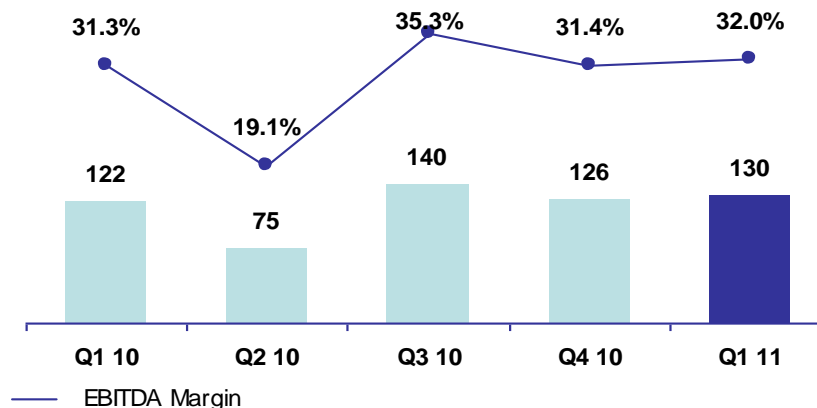
Solid revenue growth despite increased market competition

- Revenues reached NIS 406 million, up 3.6% YoY, driven mainly by growth of advanced pay-TV services
- Total subscribers increased 1.6% YoY to approximately 580,000
- EBITDA reached NIS 130 million, up 6.1% YoY, for an EBITDA margin of 32.0% vs. 31.3% in Q1 10

yes Revenue
NIS MM



yes EBITDA
NIS MM

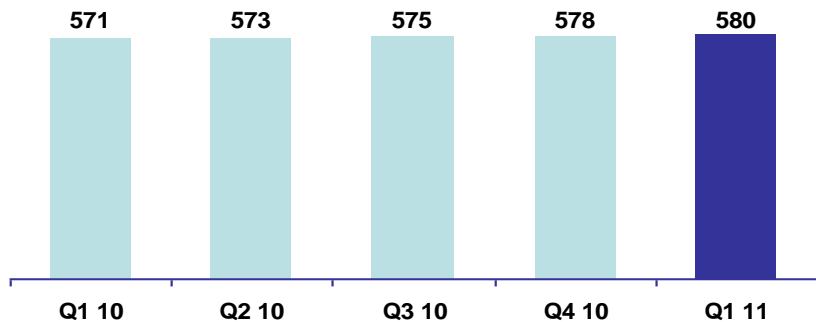


Value Added Services

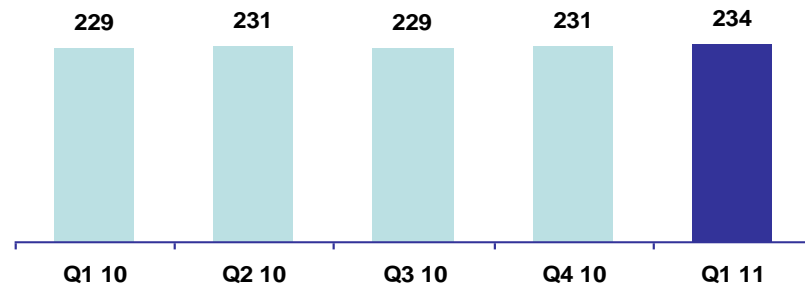
Value added services contribute to ARPU improvement

- ARPU grew 2.2% YoY to NIS 234 as yes increased sales of VAS such as yesMax, PVR service, yesMaxHD, and IP-based VOD

yes Subscribers
'000, end of period



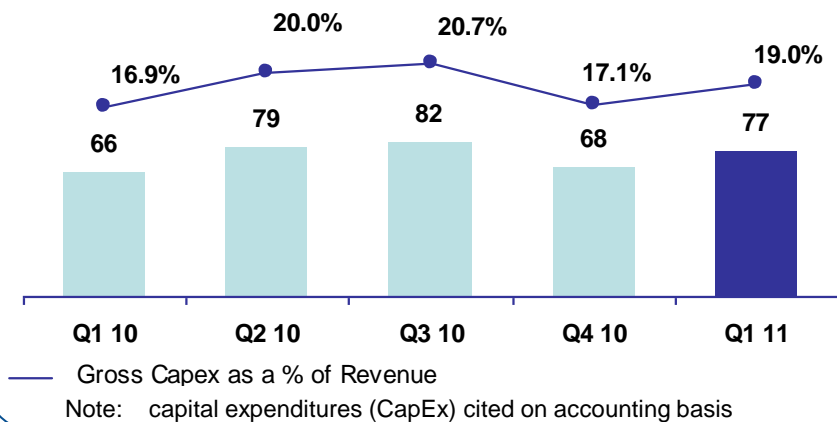
yes ARPU
NIS/Month, avg per quarter



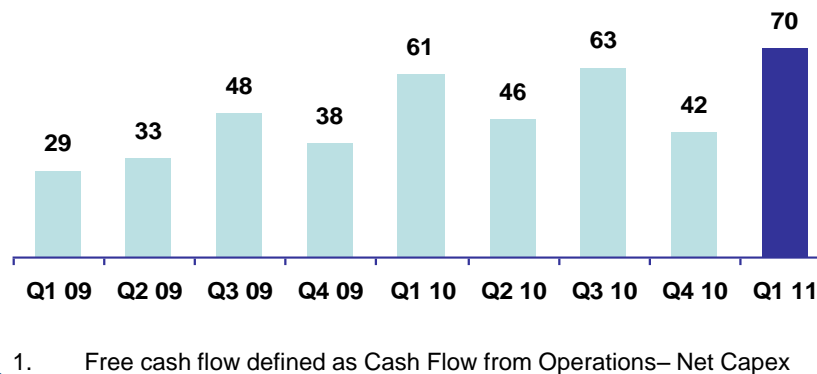
CapEx & Cash Flows

- ! Free cash flow expansion
 - ! Operating cash flow increased to NIS 141 million, up 16.4% YoY
 - ! FCF increased to NIS 70 million, up 16.1% YoY

yes Gross Capex
NIS MM



yes Free Cash Flow ⁽¹⁾
NIS MM





Thank You

**For additional
information,
please visit our website:**

www.bezeq.co.il