



Bezeq

Second Quarter 2009 Results

Investor Presentation

Forward-Looking Information and Statement

This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunication Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management’s expectations about new and existing programmes, opportunities, technology and market conditions. Although Bezeq believes its expectations are based on reasonable assumptions, these statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. In addition, the realisation and/or otherwise of the forward-looking information will be affected by factors that cannot be assessed in advance, and which are not within the control of Bezeq, including the risk factors that are characteristic of its operations, developments in the general environment, external factors, and the regulation that affects Bezeq’s operations.





Bezeq Group Overview

Overview

The most comprehensive communications platform in Israel



2Q09 Highlights

! Another strong quarter combining net revenue growth with successful cost-cutting

- ! Key profitability metrics all posted YoY improvements: operating profit +8%, net profit +22%, EBITDA +6%
- ! EBITDA margin remains robust at 40.3% on a consolidated basis

! 5.2% revenue growth demonstrates the balance between the group's key business areas

- ! Growth in Pelephone and in broadband internet, data & transmission services more than offset the anticipated decline in traditional telephony

! Advanced HSPA and NGN network infrastructures begin to yield benefits

- ! First full quarter since launch of Pelephone's advanced HSPA network demonstrates strategic potential
- ! Fixed-Line's NGN network already covers approximately 7% of Bezeq's broadband customer base

! Solid cash flow generation

- ! Operating cash flow increased 6.5% YoY to NIS 808 MM in 2Q09, and 48% YoY to NIS 2,032 MM in 1H09



Dividend Distribution and Dividend Policy

- ❗ **The Board of Directors has recommended a cash dividend of NIS 1,149 million (approx. NIS 0.43 per share), payable on Oct 5th to shareholders on record as of Sep 22nd**
 - ❗ This recommended distribution, combined with the NIS 792 million dividend paid during 2Q09, result in total YTD 2009 dividends of NIS 1,941 million, or NIS 0.73 per share

- ❗ **The Board of Directors has also adopted a dividend distribution policy, whereby the Company will distribute to its shareholders, on a semi-annual basis, cash dividends amounting to 100% of the net profit attributable to the shareholders of the Company recorded for the previous six-month period, based on the consolidated financial statements of the Company**



2009 Financial Outlook – Update

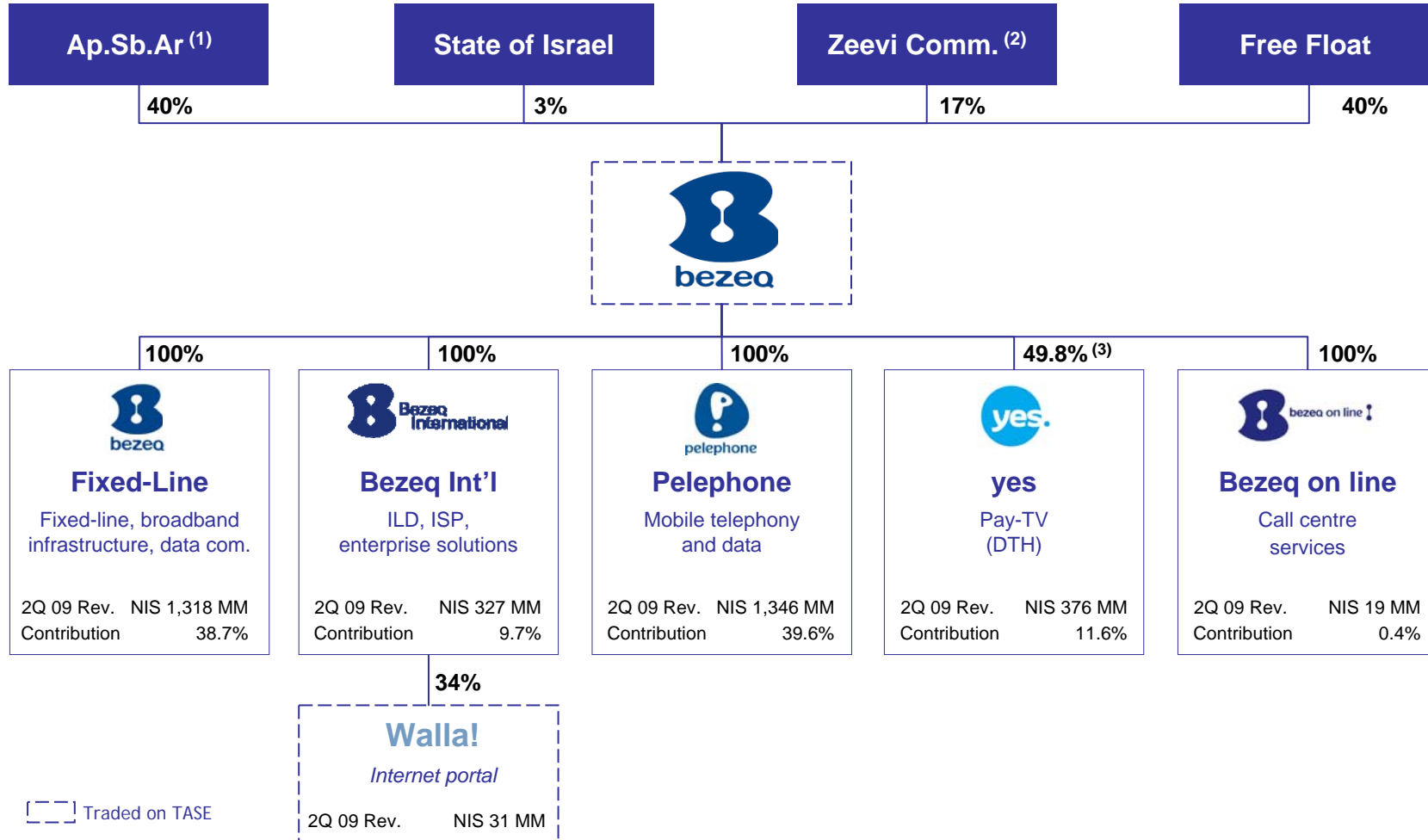
❗ The Bezeq Group anticipates achieving 2009 revenues, net profit, EBITDA, and operating cash flows above those of 2008

- ❗ Previous outlook called for revenues, net profit, EBITDA, and operating cash flows in line with 2008 levels
- ❗ Updated outlook is based upon the materially stronger financial performance for 1H09 vs. 1H08, and considering the improved visibility of the economic environment
- ❗ We are not changing our outlook for gross capital expenditures, which are still expected to be close to the 2008 level



Bezeq Group Profile

A comprehensive telecom services provider controlled by Apax Partners, Saban Capital Group, and Arkin Communications

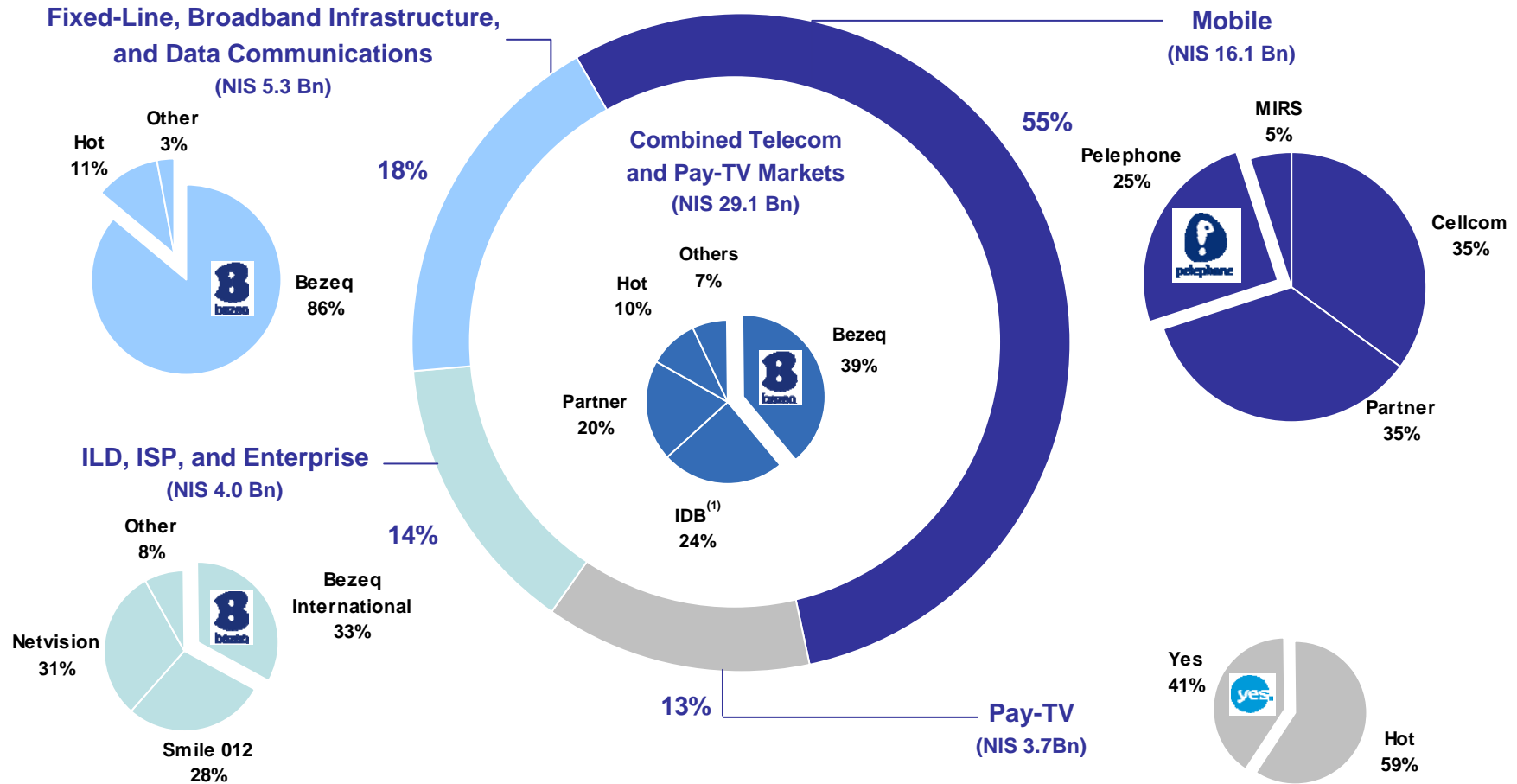


1. Private equity consortium comprised of Apax Partners, Saban Capital Group, and Arkin Communications
 2. Zeevi Communications Holdings Ltd. has been appointed a receiver, who effectively administers this stake on behalf of a consortium of 7 Israeli banks
 3. Bezeq Group also owns a call option on an additional 9% of yes and fully consolidates yes' financial results



Israeli Communications Markets

Bezeq Group commanded a 39% share of the overall communications market revenues in 2008 and is a leading player in each segment



Source: Bezeq analysis based on 2008 data

1. IDB comprises Cellcom and Netvision/Barak



Regulatory Environment – Update

- ⌚ **Fixed-Line – Bezeq’s market share in the fixed-line consumer sector down to 79.9% as of Apr-09**
 - ⌚ Negotiations with MoC about the change in our companies’ licenses to allow for the offering of bundled services (triple-play), as market share went below 85%

- ⌚ **Bezeq Int’l – launch of Voice-over-Broadband (“VOB”) services in order to complement portfolio**

- ⌚ **Mobile market getting increased attention from the regulator**
 - ⌚ MoC plans to introduce additional mobile operators, through a fifth MNO that would get considerable concessions, and/or through the MVNO model
 - ⌚ Consumer-oriented legislation poses further challenges to existing operators

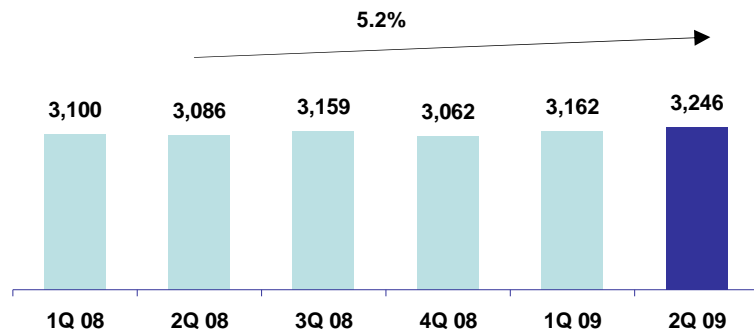
- ⌚ **Multi-channel Pay-TV**
 - ⌚ Digital Terrestrial TV (DTT) reform implemented in August – both yes and HOT are expected to see increased churn



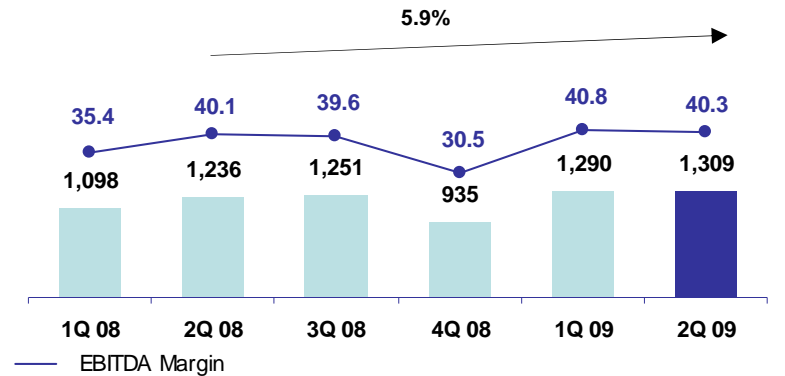
Bezeq Group Financial Performance

Robust performance combining revenue growth with improved profitability

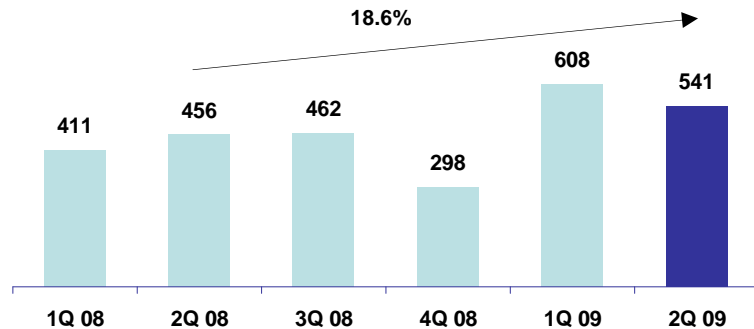
Group Revenue
NIS MM



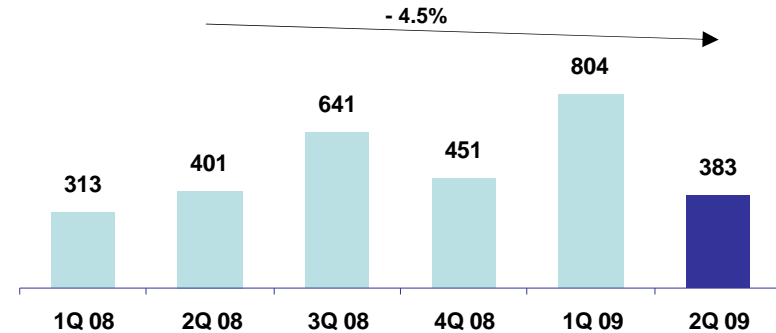
Group EBITDA
NIS MM



Group Net Profit (att. to Bezeq shareholders)
NIS MM



Group Free Cash Flow ⁽¹⁾
NIS MM



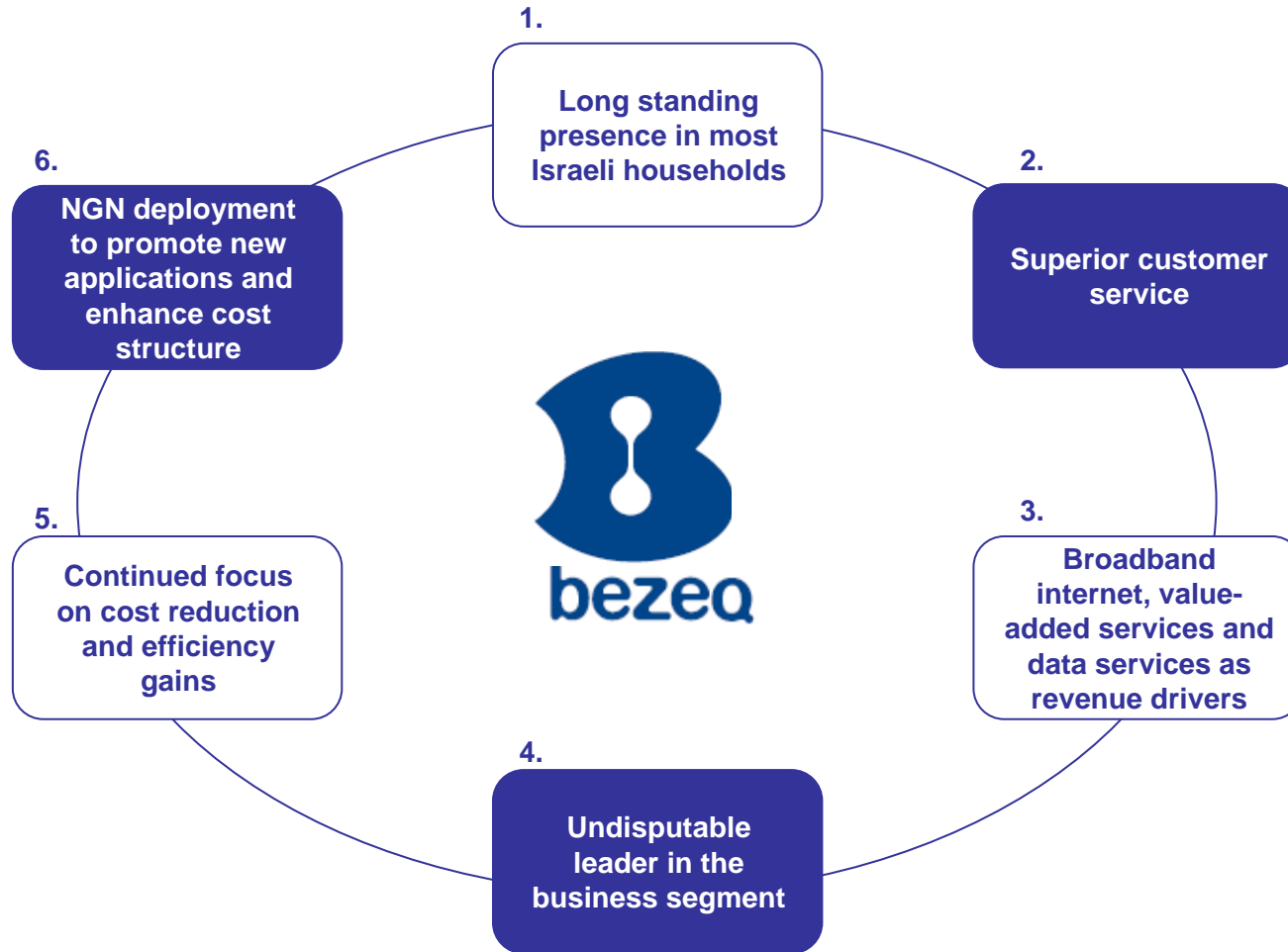
1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



Bezeq Fixed-Line

Fixed-Line Overview

The leading fixed-line services operator in Israel



Fixed-Line 2Q09 Highlights

- **Successful streamlining in operating expenses supports EBITDA margins at 48.5%**
 - 8.5% YoY reduction in general and operating expenses
 - 12% YoY decline in salaries due to capitalization of network projects, including work related to NGN deployment

- **Focus in growing areas such as broadband internet, data & transmission services mitigates telephony revenue erosion**
 - Fixed-Line's revenues declined only 2.1% YoY when adjusting for mobile interconnect fees – outperforming decline in market share
 - ADSL ARPU increased to NIS 69, up 4.5% YoY and 1.5% sequentially, driven by tariff increase, bandwidth upgrades and sales of wireless home networks
 - Stable sequential decline in access lines (-32k) and stable churn in business segment despite restrictive regulation and economic slowdown

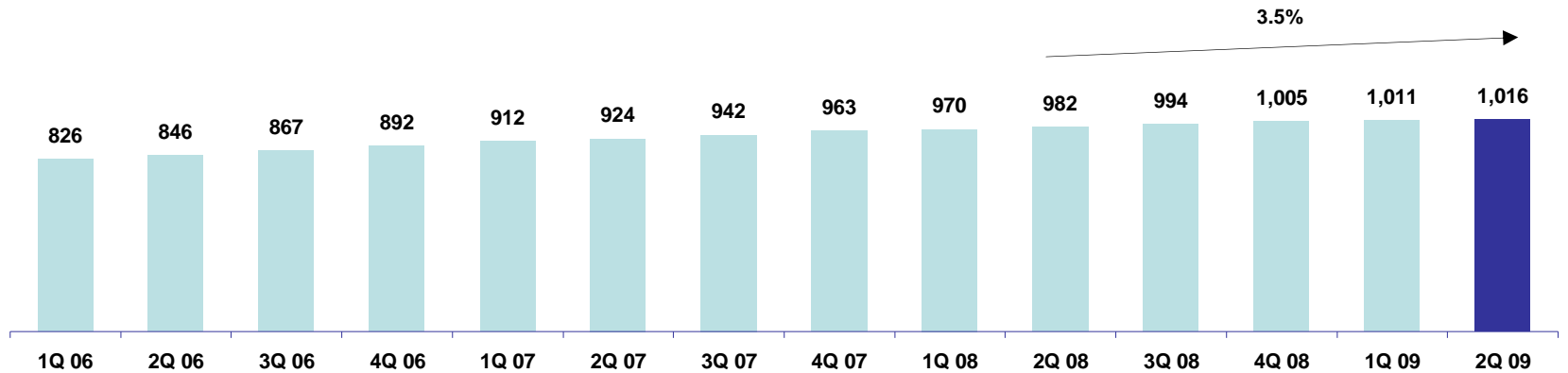
- **NGN deployment progress – 180k subscribers already connected to the new network**
 - NGN will allow for bandwidths of up to 50 MB



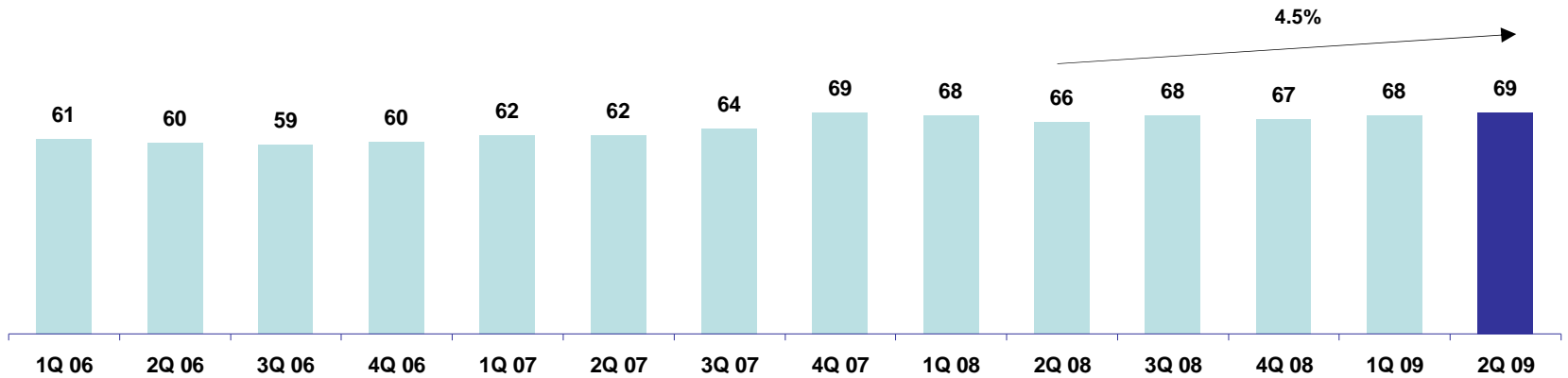
Broadband KPIs

Continued growth in ADSL lines combined with higher ARPU

ADSL Lines
'000



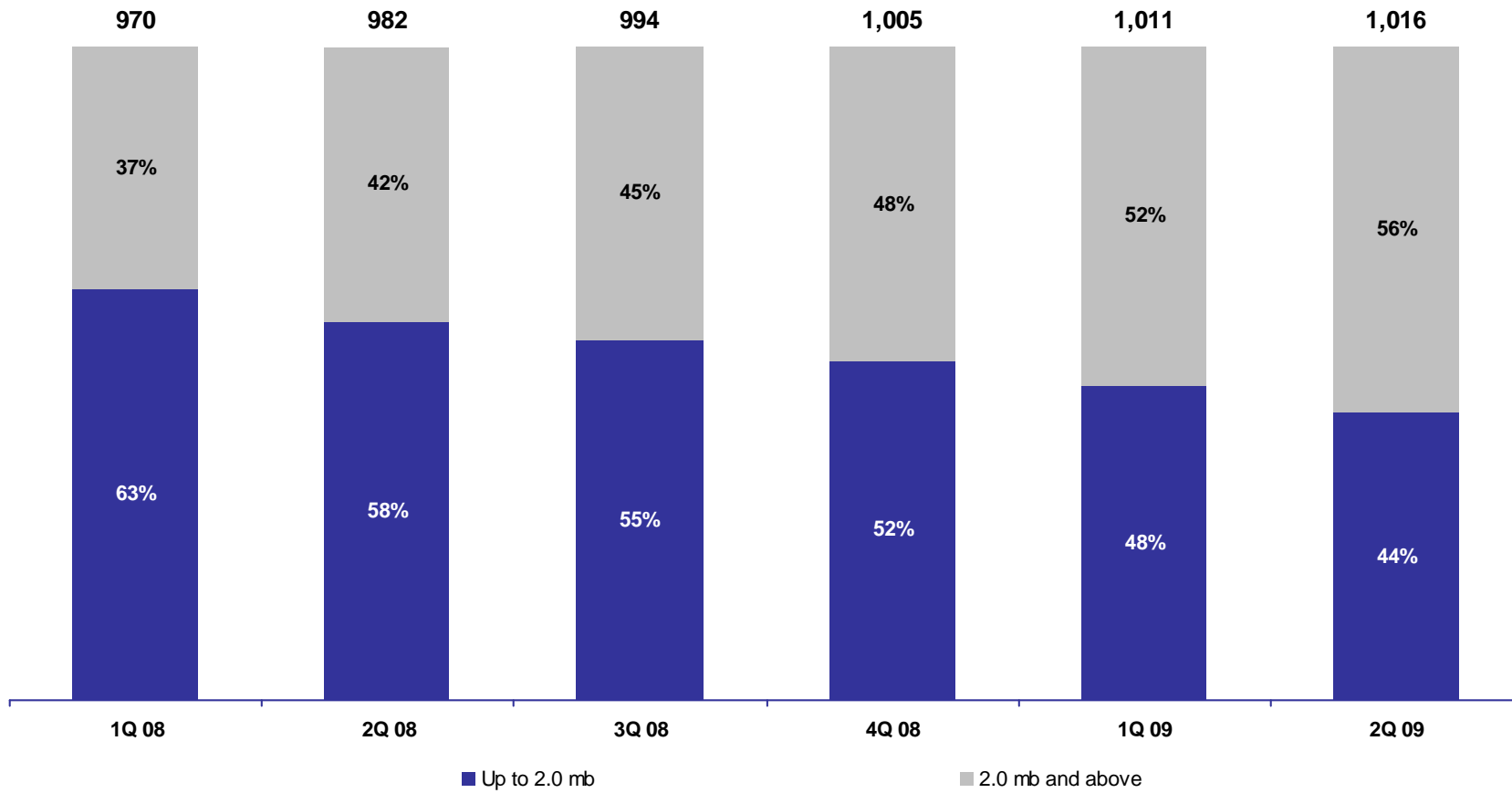
ARPU
NIS/Month



Broadband KPIs

Focus on bandwidth upgrades and sales of home networks support ARPU

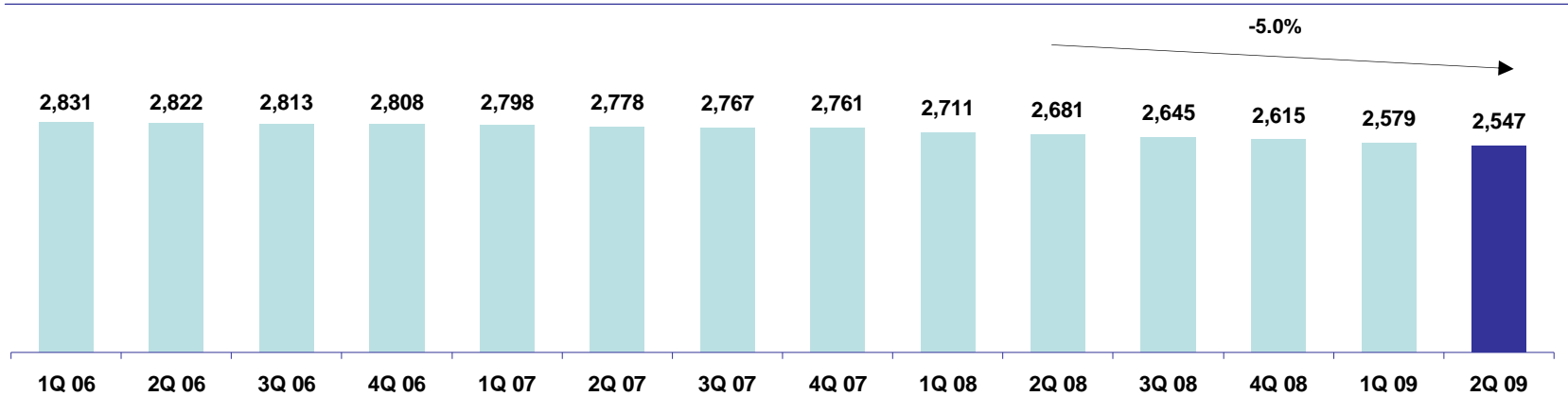
Broadband Subscribers Split by Bandwidth
'000



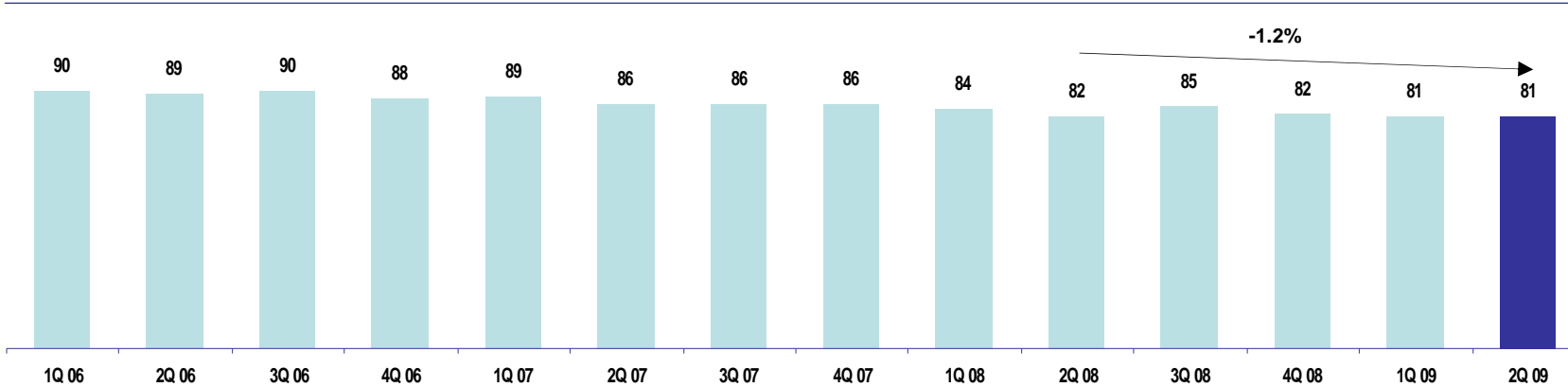
Domestic Telephony KPIs

Residential segment lines loss under control; relatively stable ARPL

Access Lines
'000



ARPL⁽¹⁾
NIS/Month



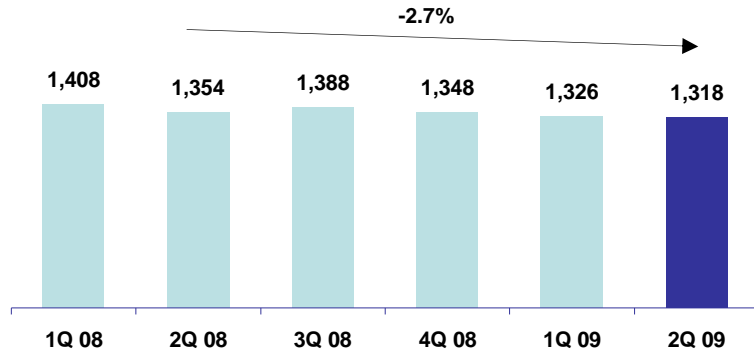
1. Not including revenues from data communications and transmission services, internet services, services to communications providers, and contract and other work.



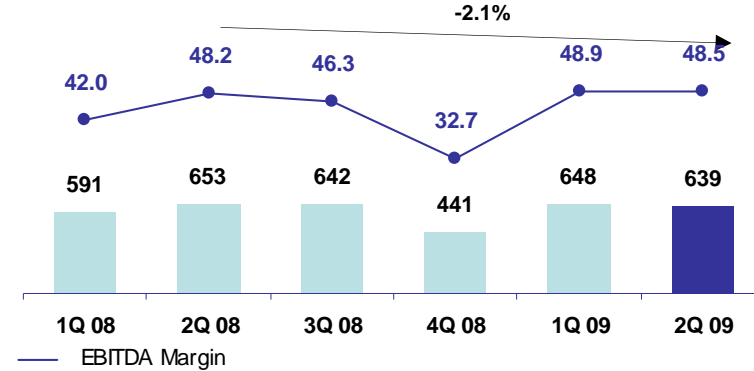
Fixed-Line Financial Performance

Solid EBITDA levels and margins; NGN capex ramp up

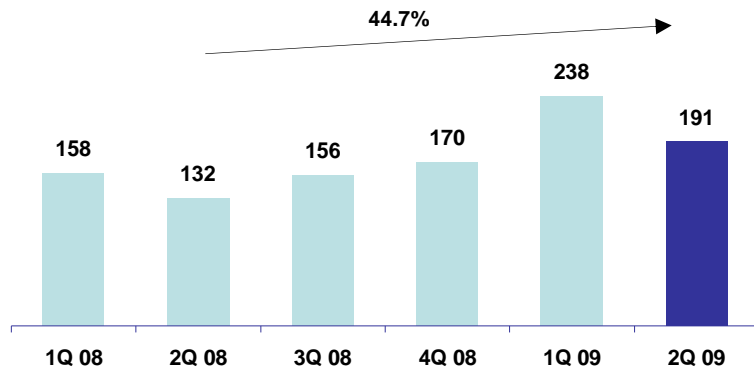
Fixed-Line Revenue
NIS MM



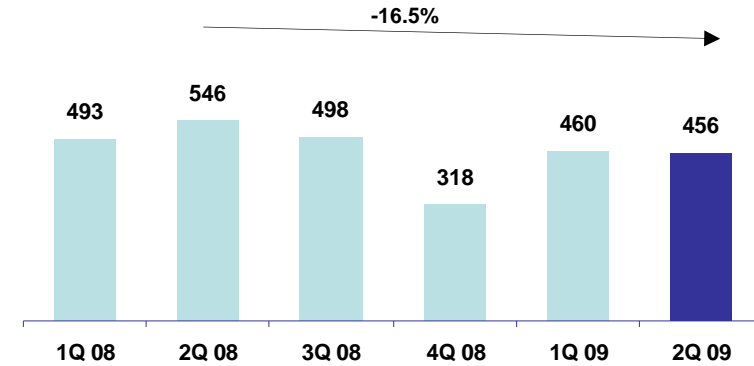
Fixed-Line EBITDA
NIS MM



Fixed-Line Gross Capex (Payments)
NIS MM



Fixed-Line EBITDA less Net Capex
NIS MM

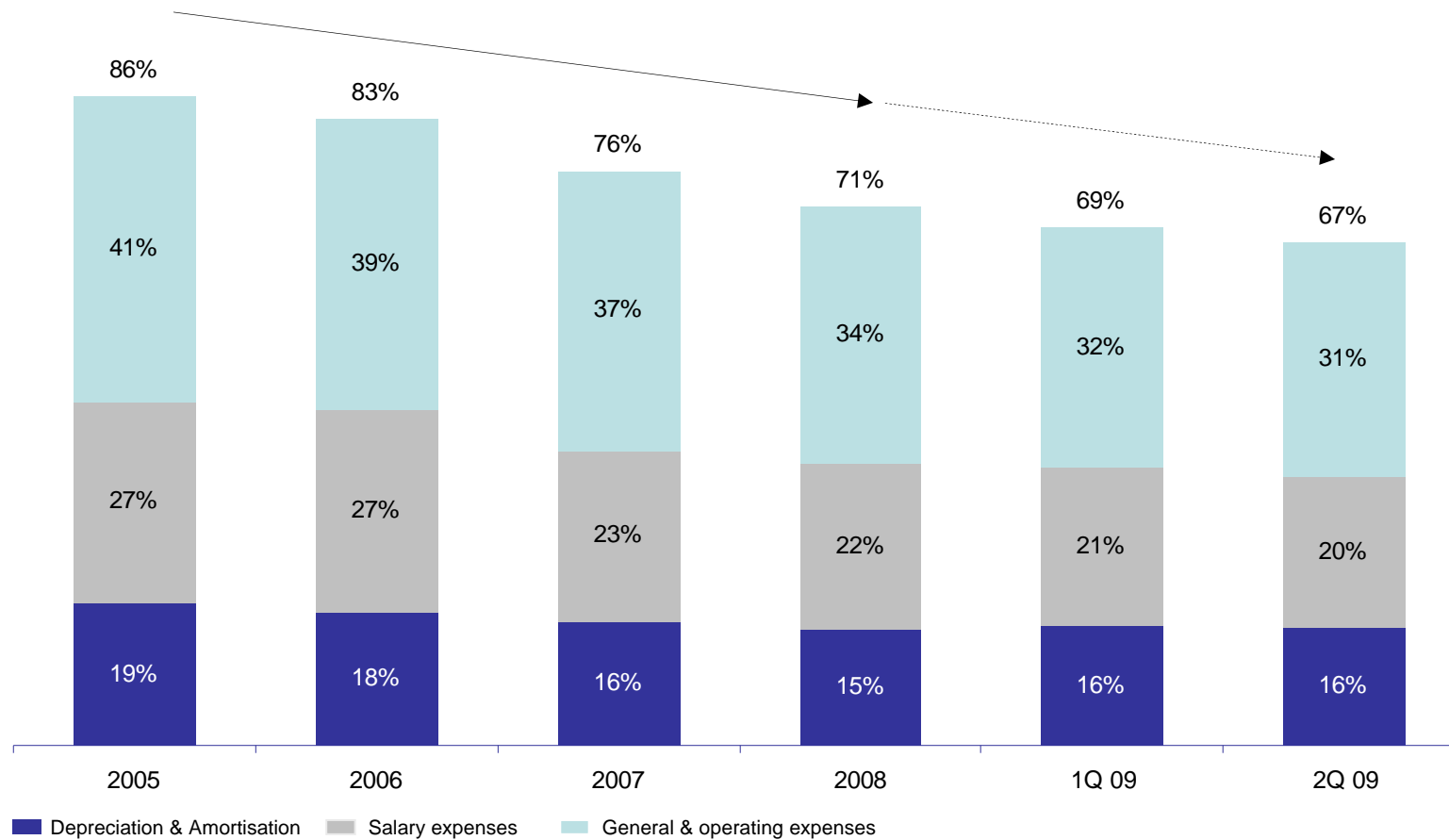


Cost Structure Development

Further reduction of the cost base delivers higher profitability

Cost Structure ⁽¹⁾

% of revenues



1. Excluding capital gains/losses, one-off labor agreement related items and other expenses/income



Bezeq
International

Bezeq International Overview

Leader in the ISP, ILD¹ and PBX markets in Israel with growing operations in the Enterprise market



1. ILD stands for the International long-distance communications market, which includes the international direct-dialling (IDD) segment.



Bezeq International 2Q09 Highlights

- ⌚ **Record operating profit (NIS 68 MM), net profit (NIS 56 MM) and EBITDA (NIS 88 MM), despite stable revenues (+0.3%)**
 - ⌚ Profitability gains a result of focus on core ISP and ICT areas, combined with cost control
 - ⌚ Higher revenues from broadband ISP services despite intense competition; YoY increase in revenues from enterprise communications solutions
 - ⌚ Economic slowdown impacts revenues from ILD and PBX

- ⌚ **Continued leadership of the highly competitive ISP segment with 35% market share**
 - ⌚ Growth in core ISP business driven by bandwidth upgrades and increase in VAS demand

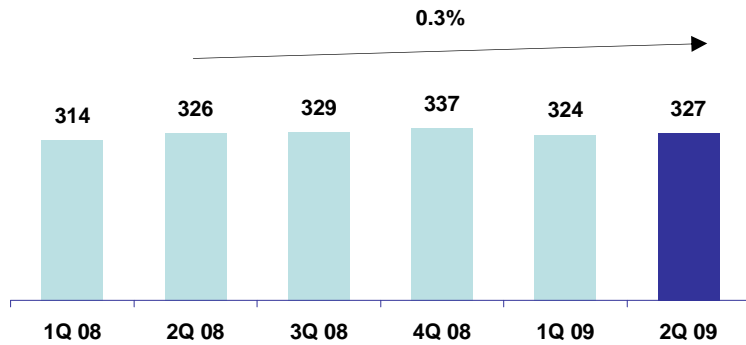
- ⌚ **Third consecutive quarter of significant YoY gains in operating and free cash flows**
 - ⌚ Working capital improvements combined with lower than average capex delivered FCF of NIS 62 MM in 2Q09 and NIS 124 MM in 1H09



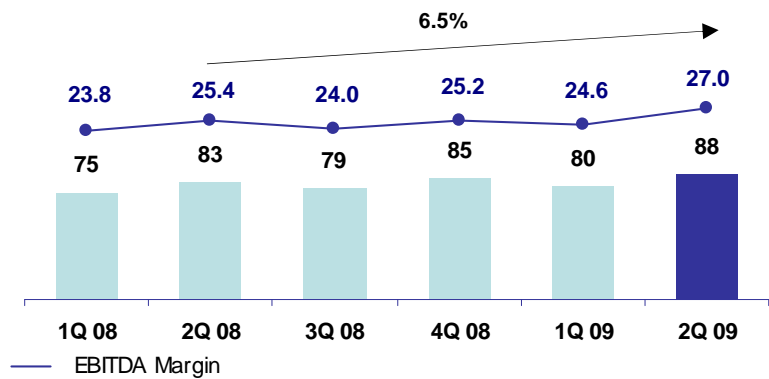
Bezeq International Financial Performance

Record EBITDA margin (27%) and continued strength in cash flow generation

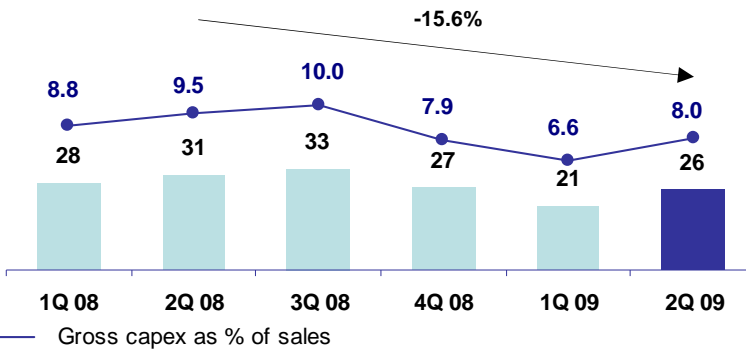
Bezeq International Revenue
NIS MM



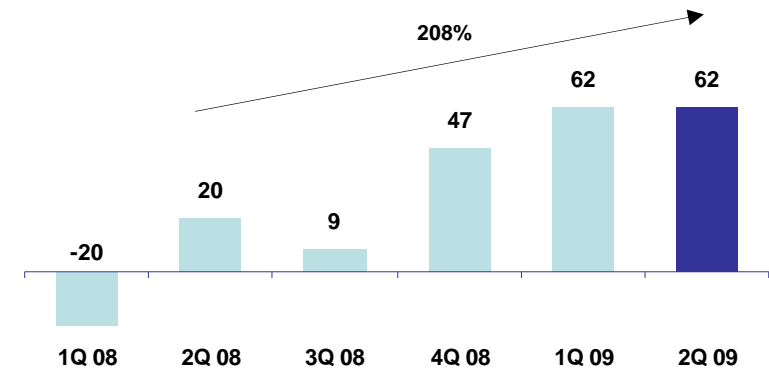
Bezeq International EBITDA
NIS MM



Bezeq International Gross Capex (Payments)
NIS MM



Bezeq International Free Cash Flow ⁽¹⁾
NIS MM



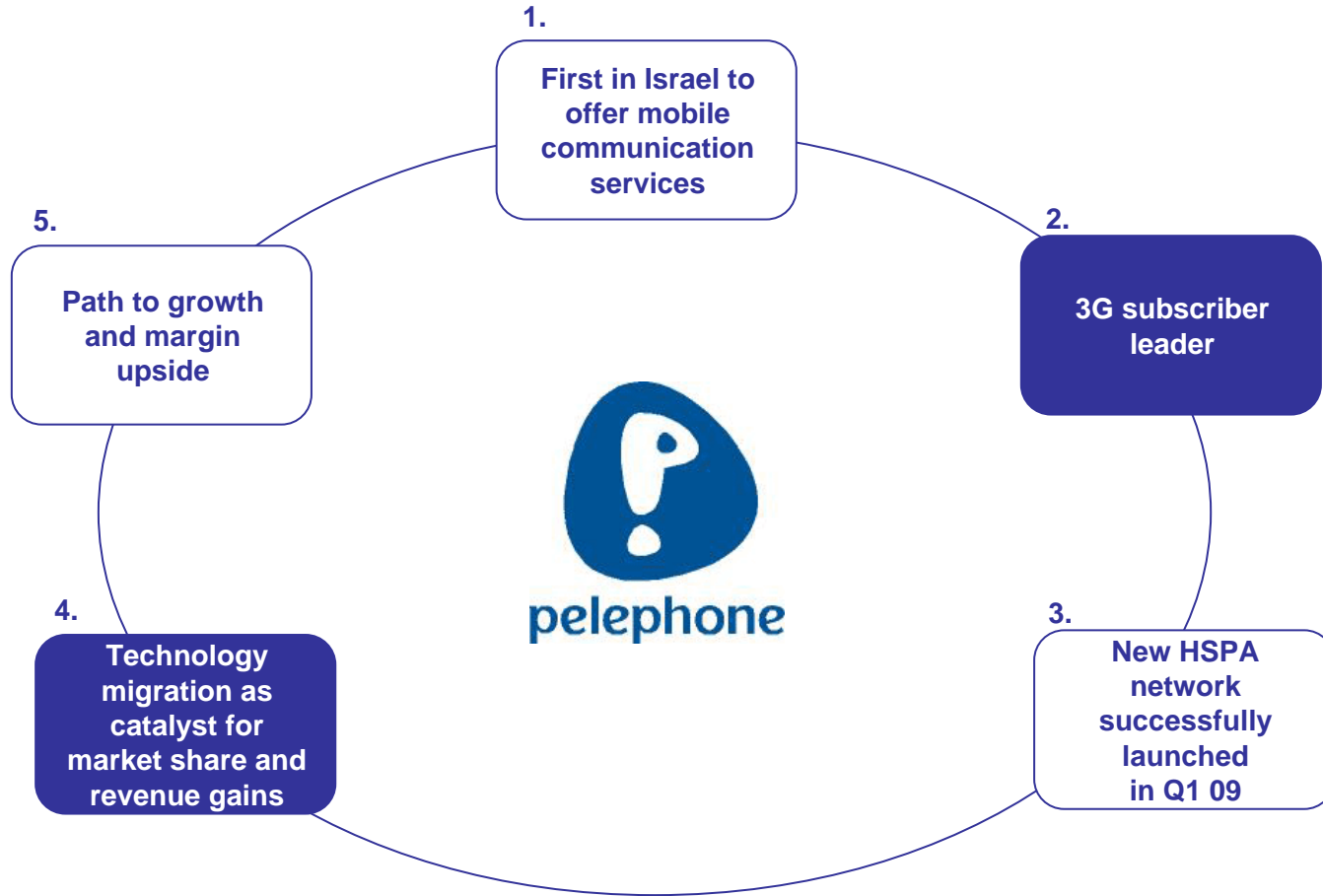
1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



pelephone

Pelephone Overview

A strong player in the Israeli mobile communications market with significant upside potential



Pelephone 2Q09 Highlights

- **First full quarter since HSPA network launch demonstrates upside and strategic potential**
 - 340k subscribers – over 12% of Pelephone’s total – are already on the new network as of late July 2009
 - HSPA subscribers fit the higher value usage profile underpinning the new network strategy

- **Revenues grow to record NIS 1,346 MM, up 13.3% YoY**
 - Solid cellular services revenue growth, mainly from higher data, content and VAS usage
 - Continued strength in sales of smartphones combined with lower subscriber acquisition costs
 - 2.3% YoY ARPU increase to NIS 131 reflects new network’s higher value subscriber profile ¹
 - MOU declined 8% YoY to 329 minutes due primarily to per second billing interval change as of Jan-09 ¹

- **Substantial gains in all profitability metrics; highest EBITDA margin (35.1%) in several years**
 - Net profit reaches a record NIS 233 MM, despite increased costs associated with operating dual networks
 - Operating cash flow declines 16% YoY due to changes in working capital, mainly in accounts receivable

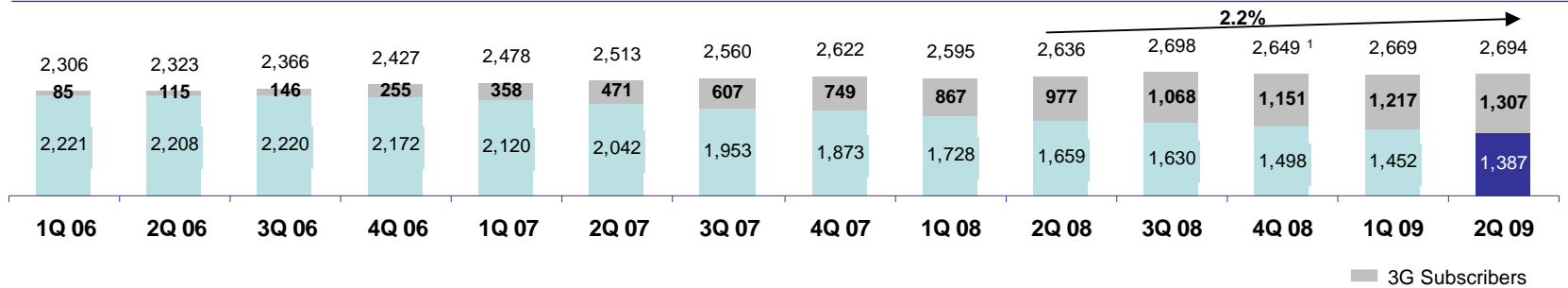
1. The YoY comparison of ARPU and MOU were influenced by the reduction of approx. 92k dormant subscribers at the end of 2008.



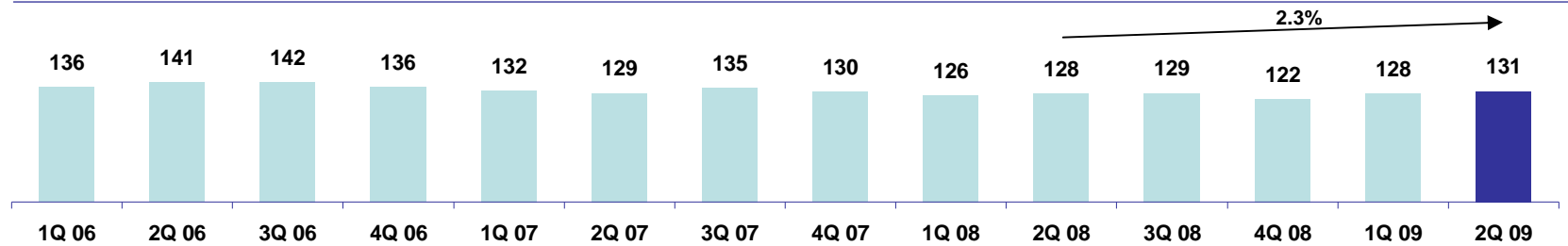
Pelephone KPIs

Data and VAS revenue close to 20% of cellular services revenue; 25K net subscriber additions in 2Q09

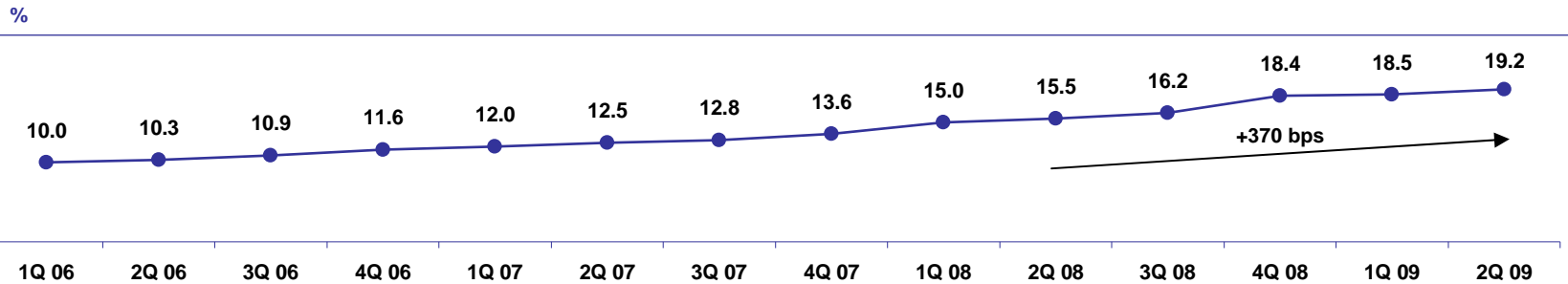
Subscribers
'000



ARPU
NIS/Month



Data and VAS Revenue as a Percentage of Cellular Service Revenue⁽²⁾



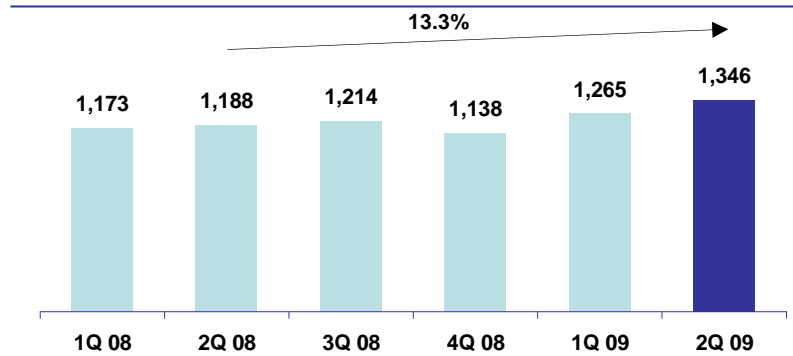
1. Following the removal of 92K subscribers who only received SMS
 2. Includes telephony and data services but excludes sale of equipments and equipment services



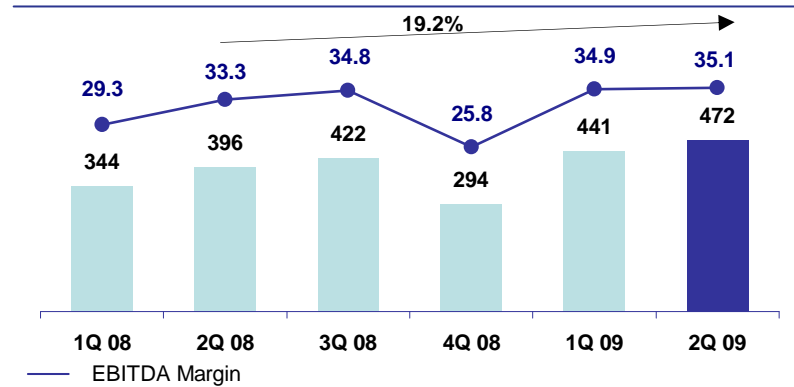
Pelephone Financial Performance

Record revenues and EBITDA (35.1% margin) reflect contribution of HSPA network

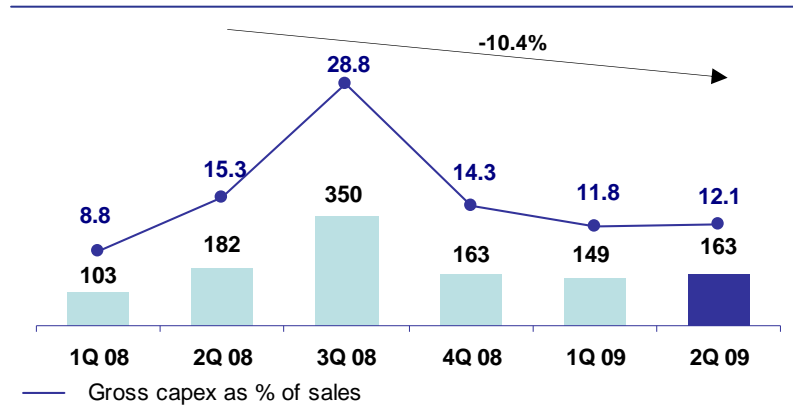
Pelephone Revenue
NIS MM



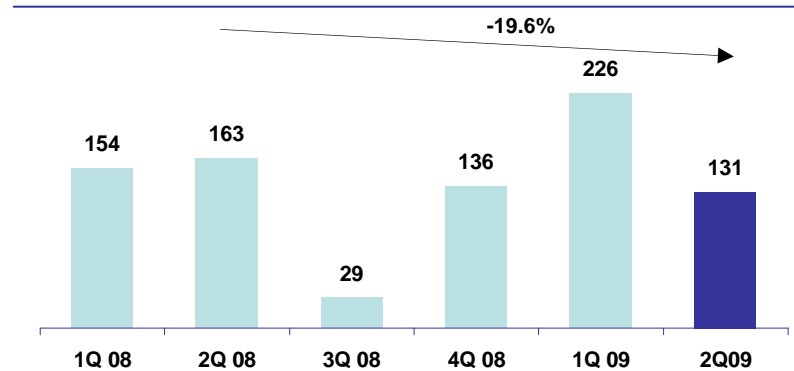
Pelephone EBITDA
NIS MM



Pelephone Gross Capex (Payments)
NIS MM



Pelephone Free Cash Flow (1)
NIS MM



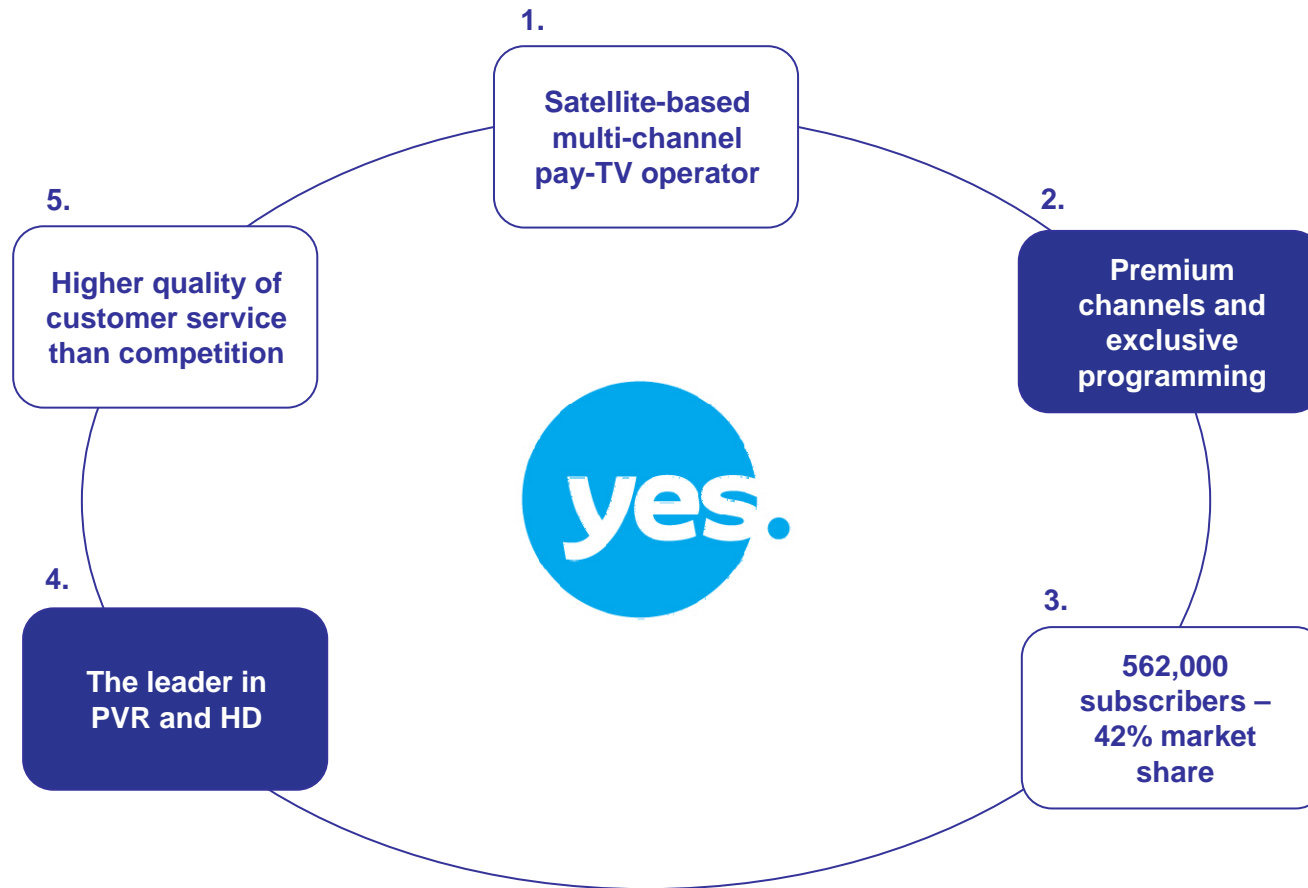
1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received





yes Overview

The premium pay-TV operator in Israel



yes 2Q09 Highlights

! Remarkable operating performance given regulatory constraints

- ! Lack of triple-play offering remains a disadvantage vs. cable competitor HOT
- ! Operating profit and EBITDA increased 39% and 11% YoY, respectively
- ! EBITDA margin remains high at 30.5%
- ! Net loss of NIS 95 MM reflects impact of inflation on CPI-linked debt

! Adjusted revenue grew 3% YoY driven by increase in subscribers and advanced TV services

- ! Adjustment relates to termination of Internet access distribution agreement with Bezeq Fixed-Line
- ! Launch of yes MaxHD PVR generates upgrade momentum
- ! 34% of yes' subscriber base have yesMax/MaxHD PVRs, reflecting upside from upgrade potential

! Substantial YoY improvements in operating and free cash flow

- ! Operating cash flow expands to NIS 93 MM in 2Q09 vs. NIS 32 MM in 1Q09
- ! Free cash flow grows to NIS 33 MM in 2Q09 vs. NIS -7 MM in 1Q09

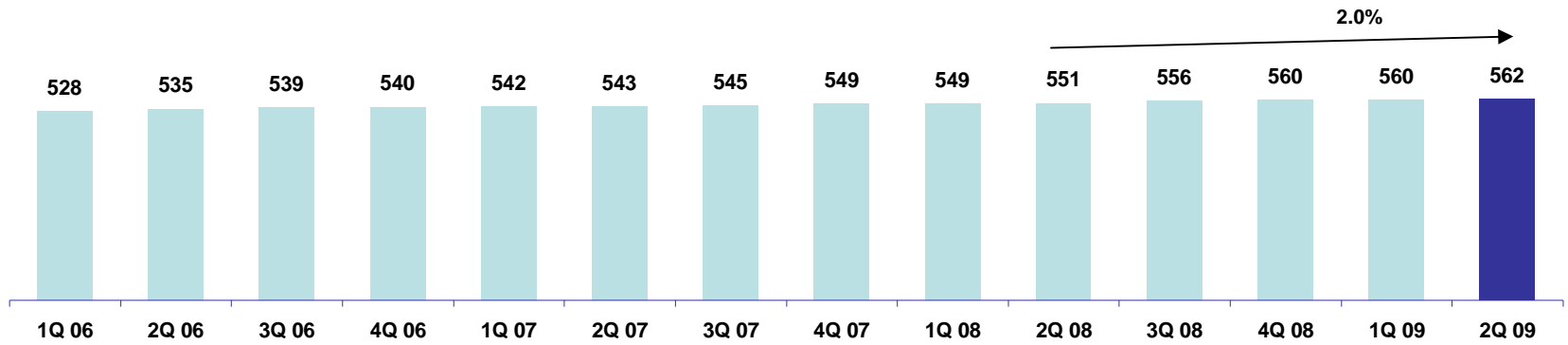


yes KPIs

Subscriber growth in highly penetrated market reflects yes' superior programming and customer perception

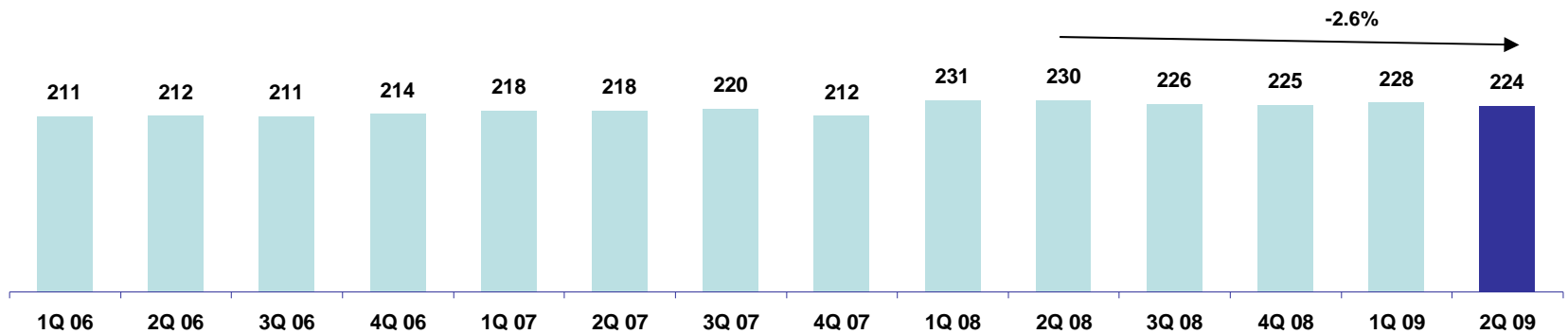
Subscribers

'000, end of period



ARPU (1)

NIS/Month, avg per qtr



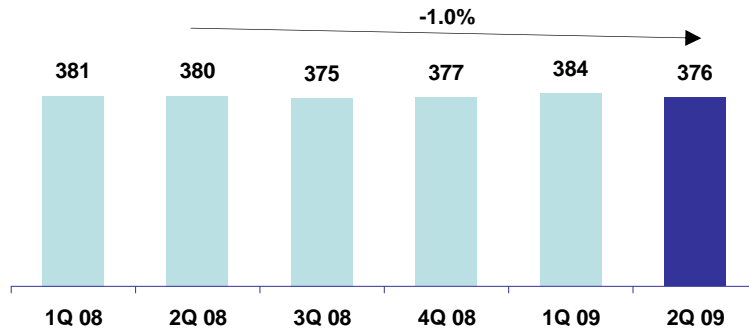
1. If revenues associated with the terminated Internet distribution agreement were excluded, 2Q09 ARPU would have increased slightly YoY.



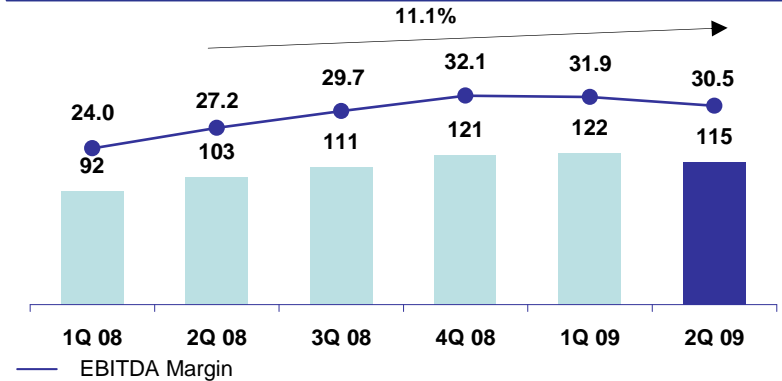
yes Financial Performance

EBITDA improvement of 22% in 1H09 YoY, despite relatively stable revenues

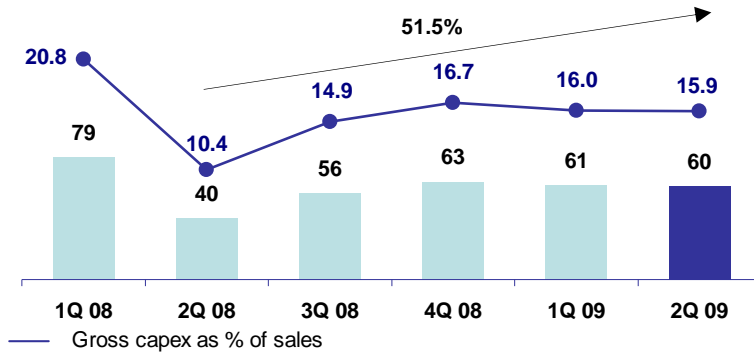
yes Revenue
NIS MM



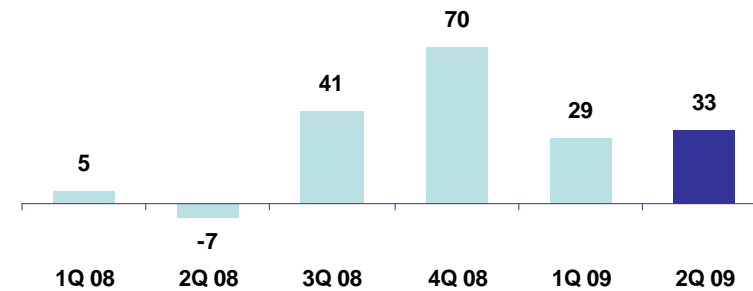
yes EBITDA
NIS MM



yes Gross Capex (Payments)
NIS MM



yes Free Cash Flow ⁽¹⁾
NIS MM



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



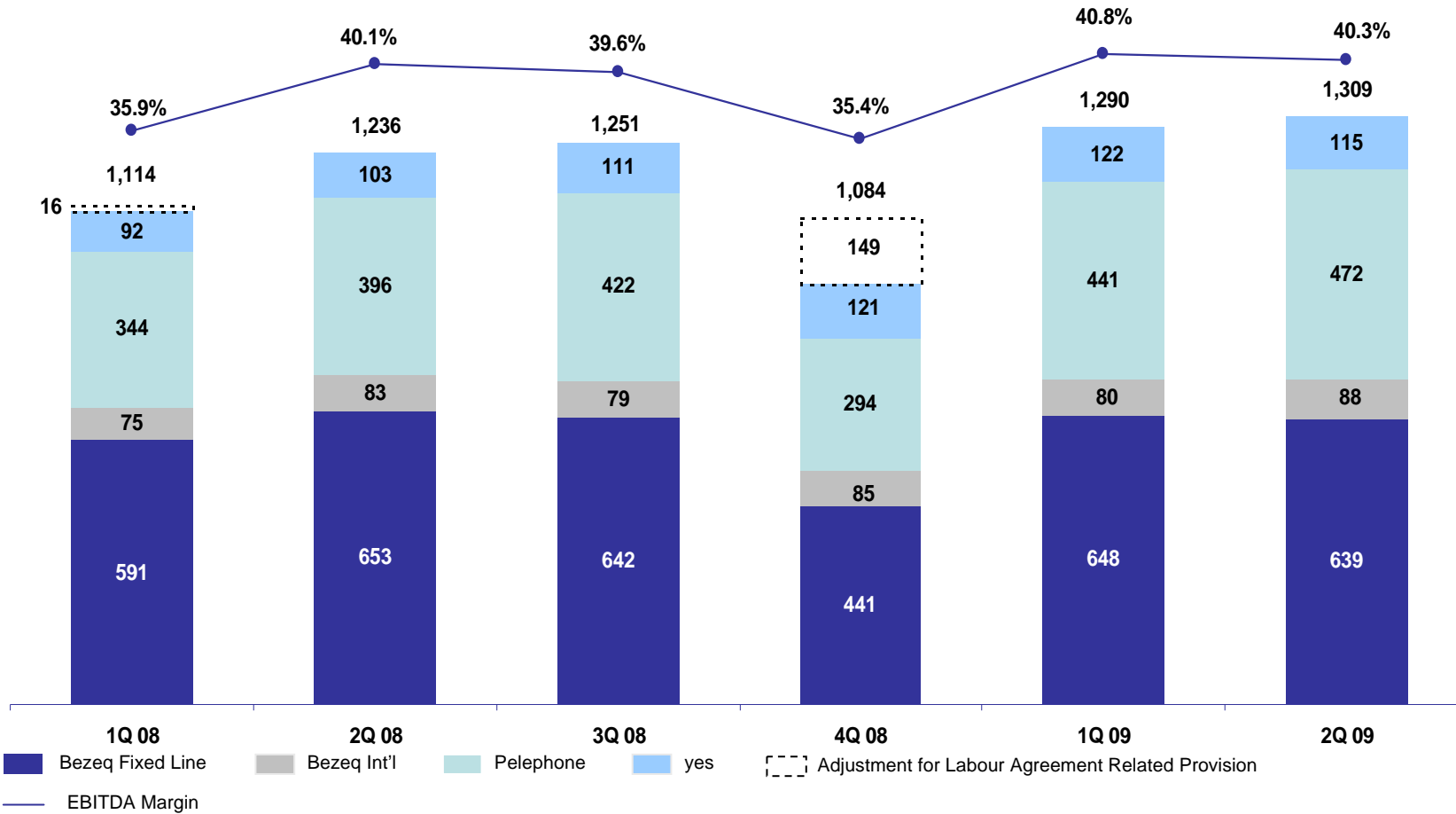


Group Financial Review

EBITDA Development

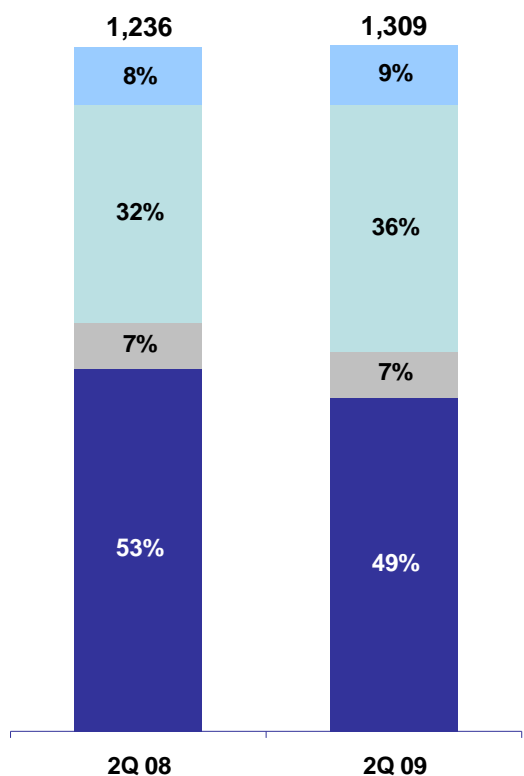
NIS 250 MM EBITDA expansion in 1H09 vs. 1H08, an 11% increase

Group EBITDA
NIS MM



EBITDA Mix and EBITDA Margins

Subsidiaries' Contribution to Consolidated EBITDA
NIS MM



■ Bezeq Fixed Line ■ Bezeq Int'l ■ Pelephone ■ yes

EBITDA Margin per Division

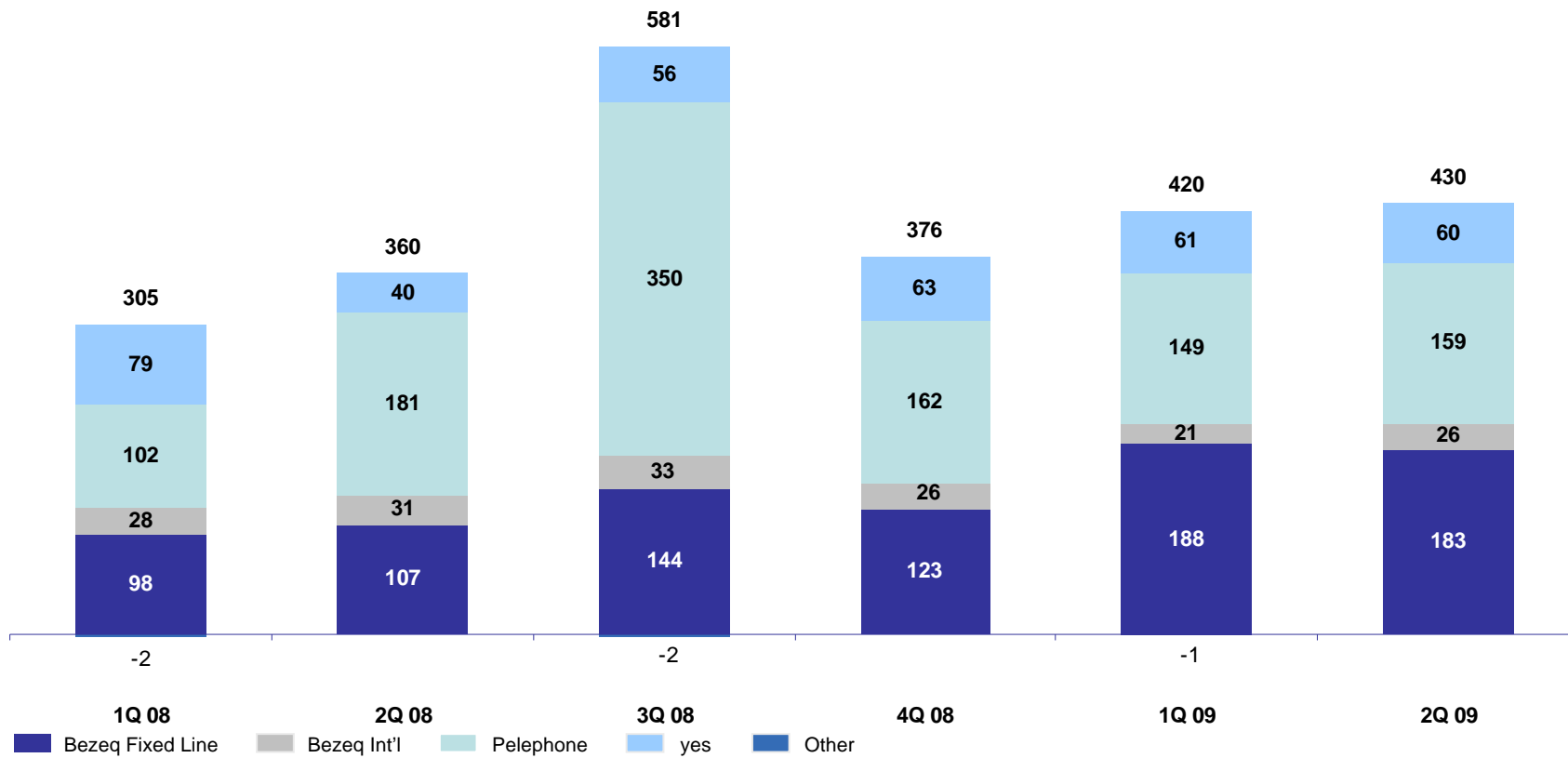
	2Q08	2Q09	Change (p.p.)
Bezeq Fixed Line	48.2%	48.5%	+0.3 p.p.
Bezeq International	25.4%	27.0%	+1.6 p.p.
Pelephone	33.3%	35.1%	+1.8 p.p.
yes	27.2%	30.5%	+3.3 p.p.
Bezeq Group	40.1%	40.3%	+0.2 p.p.



Capex Development

Increase vs. 2Q08 and 1H08 reflects mainly ongoing deployment of NGN network and payments related to HSPA network

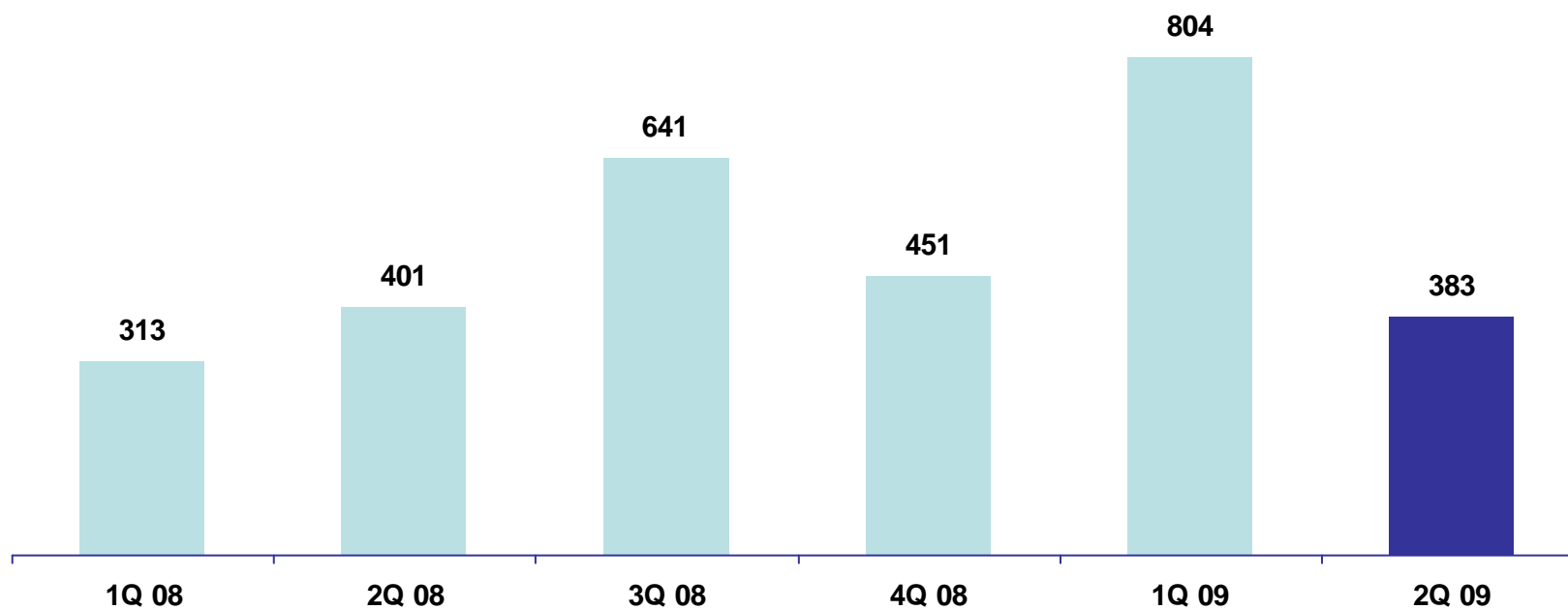
Group Net Capex (Net Payments)
NIS MM



Free Cash Flow Development

1H09 FCF expanded by NIS 473 MM, a 66% increase YoY

Group Free Cash Flow ⁽¹⁾
NIS MM



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

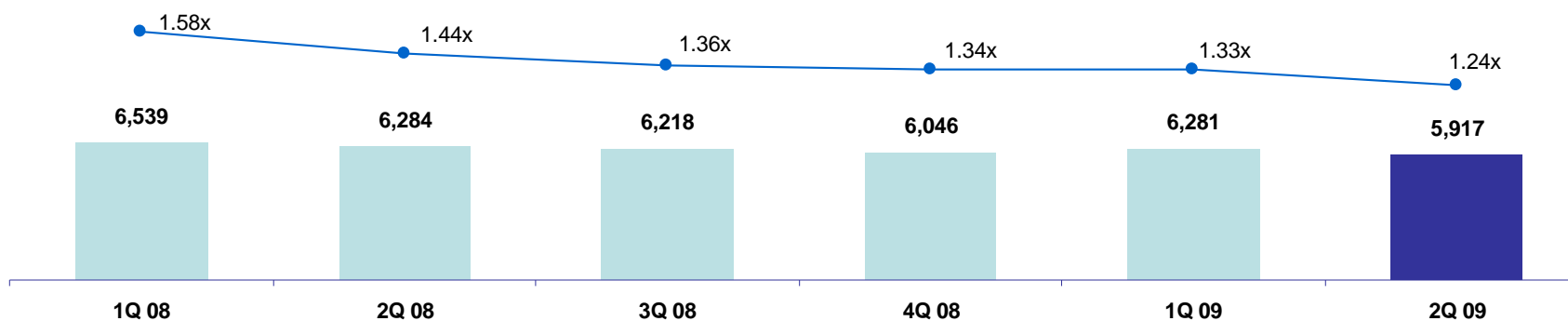
Group Financial Profile

Strong financial profile and prudent leverage provide flexibility in financing capex and other investments

Group Gross Debt

NIS MM

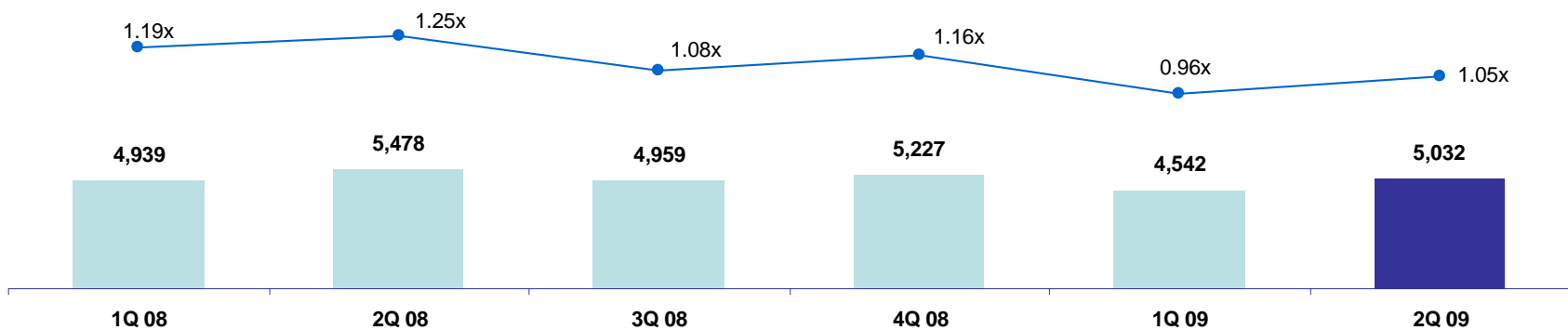
— Gross Debt / LTM EBITDA



Group Net Debt

NIS MM

— Net Debt / LTM EBITDA



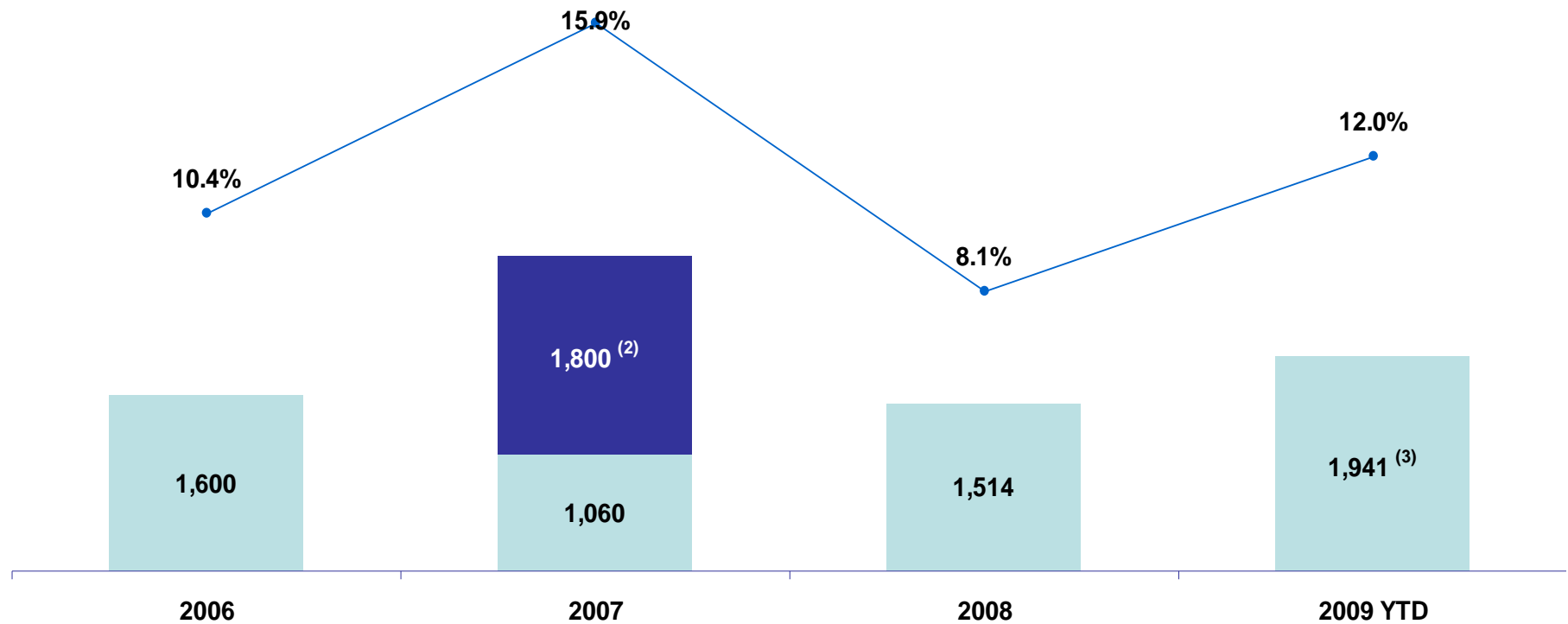
Shareholder Remuneration

Competitive shareholder remuneration while maintaining full financial flexibility

Dividend Distributions

NIS MM

— Dividend Yield, % ⁽¹⁾



Source Bezeq

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. Special dividend paid in February 2007

3. Including NIS 1,149 MM regular dividend announced August 5th, to be paid on October 5, 2009





Thank You.

For additional information,
please visit our website:

www.bezeq.co.il