



Bezeq Group

Third Quarter 2008
Results

Investor Presentation

Forward-Looking Information and Statement

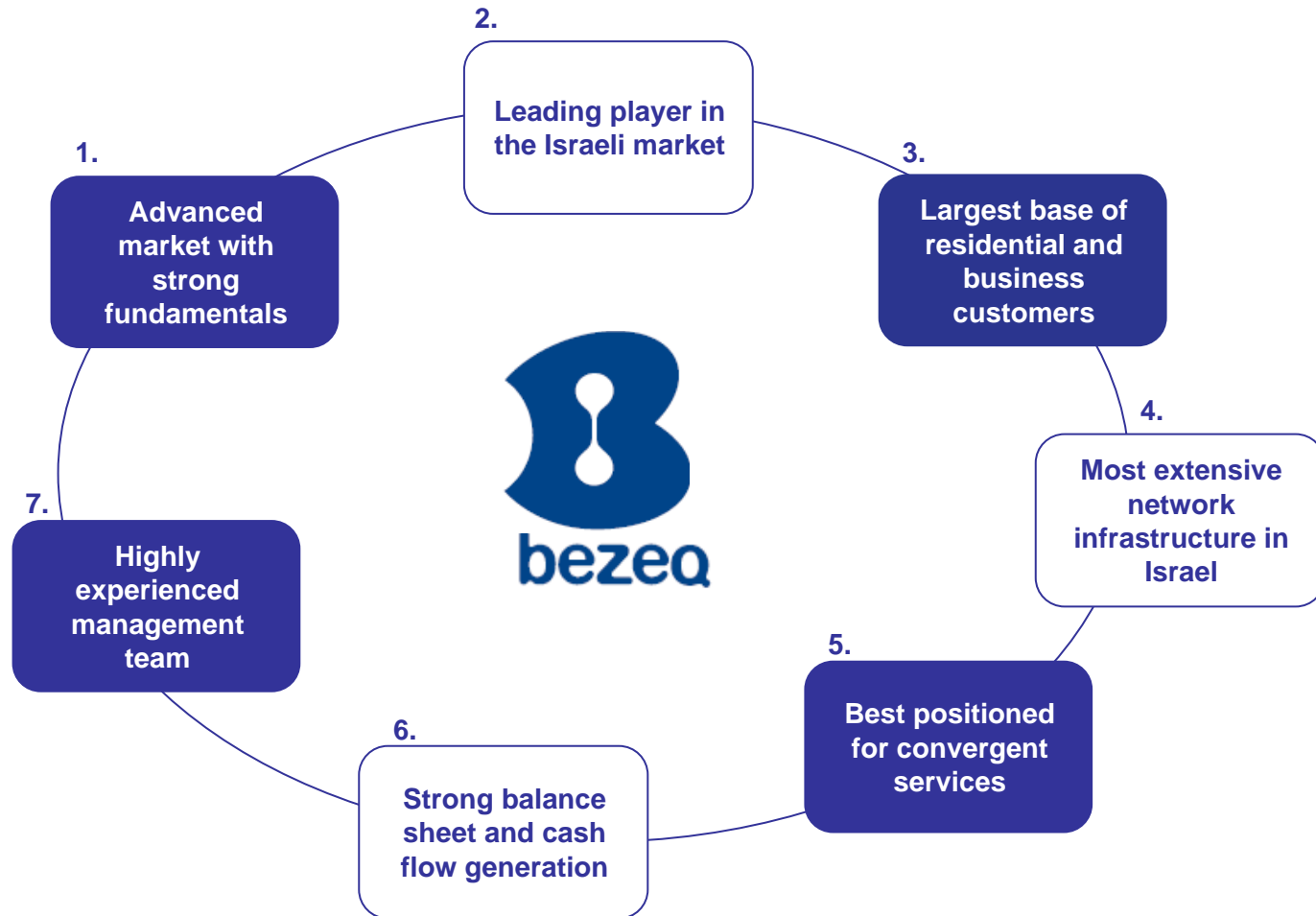
This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunication Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management’s expectations 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.



Group Overview

Summary Highlights

The most comprehensive communications platform in Israel



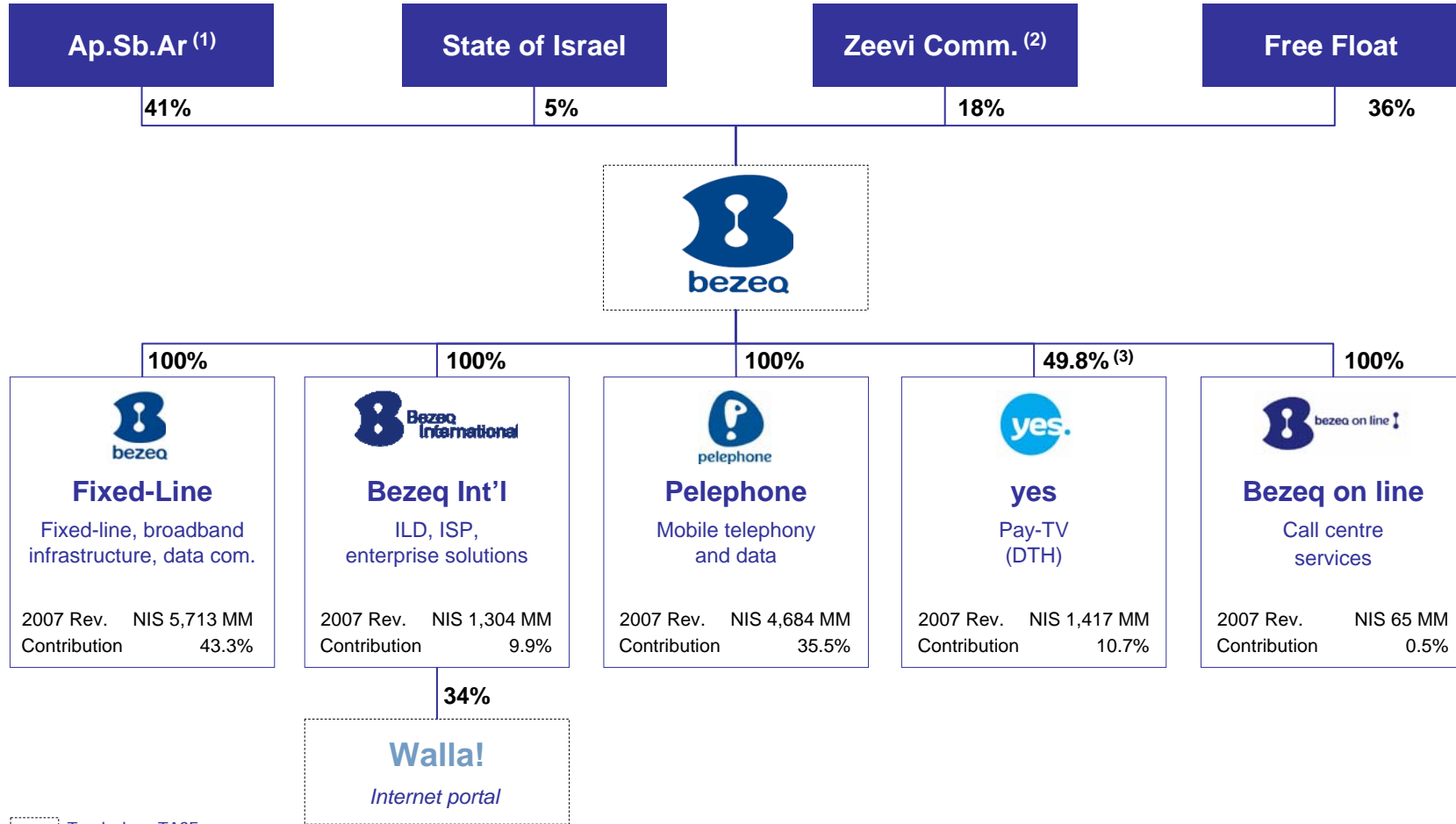
Bezeq Group 3Q08 Key Achievements

- ‡ **Record Group quarterly revenue, EBITDA and net income**
- ‡ **Bezeq Fixed-Line maintains high EBITDA levels despite the expected revenue erosion**
 - ‡ Growth in Internet services and on the enterprise market offset most of the anticipated decline in fixed-line telephony revenues
 - ‡ Continued focus on fixed-line cost structure supports high profitability levels
- ‡ **Telephone – Double-digit operating profit and EBITDA year-on-year growth**
 - ‡ Leadership position in 3G sustains data & content revenue growth
 - ‡ 62k net subscriber additions in 3Q08 – the highest in the Israeli cellular market
- ‡ **Bezeq International reaffirmed its leading position in ISP and direct-dial international calls**
- ‡ **Strong performance of yes, delivering record-high quarterly EBITDA**
 - ‡ Continued success of yesMax PVR offering driving subscriber and ARPU growth



Bezeq Group Profile

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



 Traded on TASE

1. Private equity consortium comprised of Apax Partners, Saban Capital Group, and Arkin Communications
 2. The Zeevi stake is administered 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



Vision and Strategy

Strong fundamentals to support long term vision and strategy

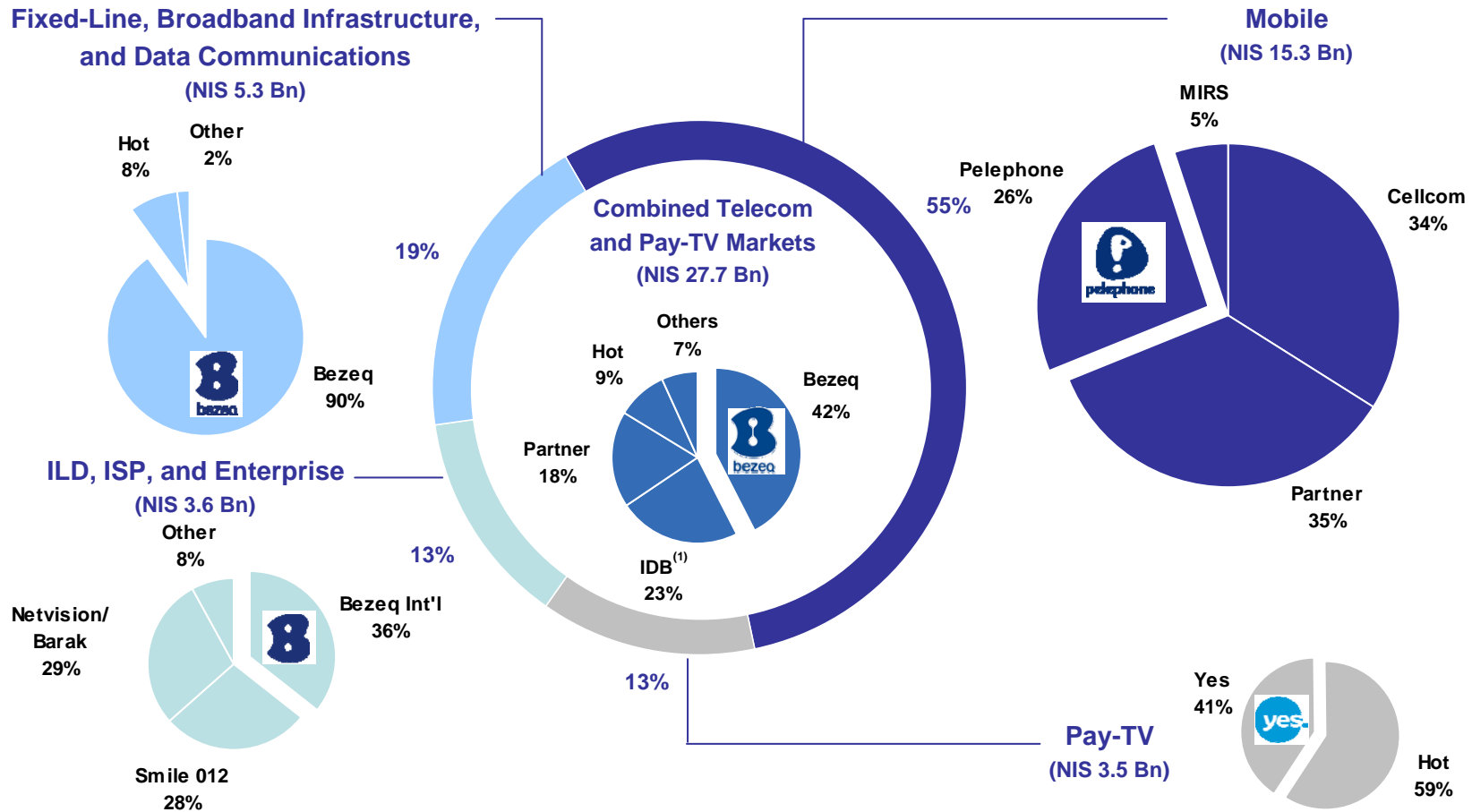
- **Adapt business and network infrastructure to respond to technological changes and convergence of communications and media**
 - Residential customers: fully integrate their home communications and entertainment services
 - Business customers: provide infrastructure and applications that are business-critical
 - Sharing content capabilities across the group

- **Maximise revenue in each business division**
 - Growth in non-traditional services to offset the decline in telephony services
 - Capitalise on the new HSPA network
 - Increase up-take of value-added services in ISP, ILD and Enterprise
 - Focus on offering premium pay-TV content and related value-added services

- **Enhance profitability by improving efficiencies and reducing costs across the Group**

Israeli Communications Markets

Bezeq Group commanded a 42% share of the overall communications market in 2007 and is a leading player in each segment



Source: Bezeq analysis based on 2007 data

1. IDB comprises Cellcom and Netvision/Barak



Regulatory Environment

Catalyst for change – MoC decisions

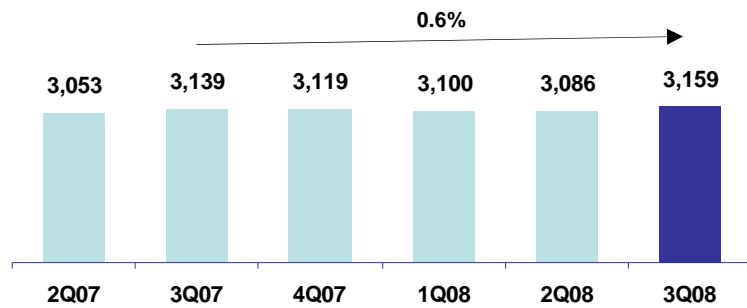
- ⌚ Bezeq's market share in the fixed-line residential consumer market is below 85%
 - ⌚ The MoC is expected to change Bezeq's license to allow offering of bundled services (triple-play)
 - ⌚ Bezeq Int'l would likely be allowed to provide VOB (Voice-over-Broadband) services
- ⌚ Based on the MoC recent decision, the cellular operators are not allowed to raise tariffs during contract period – contract must include a preset tariff
- ⌚ A committee was appointed to discuss multi-channel TV issues
 - ⌚ Narrow broadcast packages of 5-10 channels need to be offered by multi-channel broadcasters at lower than current prices – reform expected in 2011
 - ⌚ Right to sell advertising on the air may be granted to multi-channel broadcasters
- ⌚ MoC may publish MVNO licenses in the near future
- ⌚ ILD licenses will not be awarded to mobile operators before MVNO or WiMAX-based carriers compete with them on mobile services



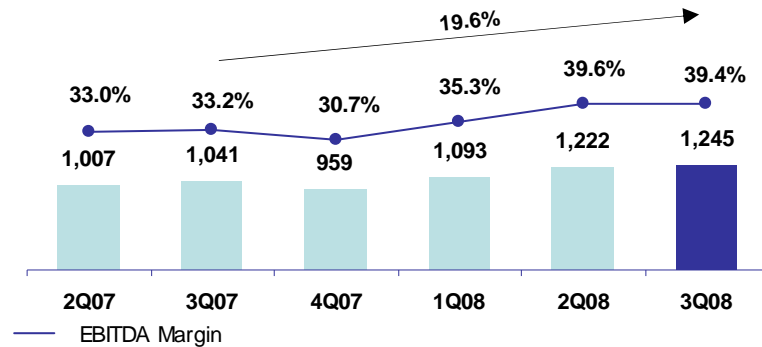
Bezeq Group Financial Performance

Stable revenues, improved profitability and free cash flows

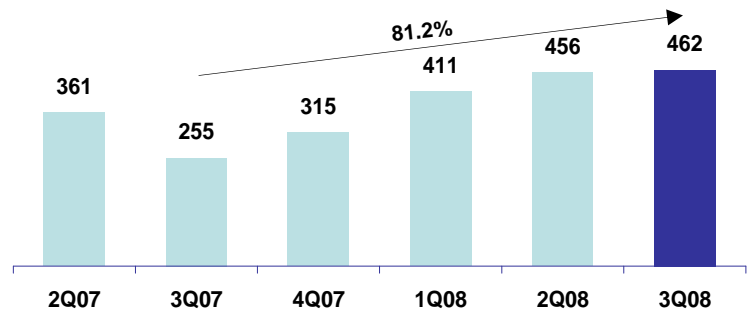
Group Revenue
NIS MM



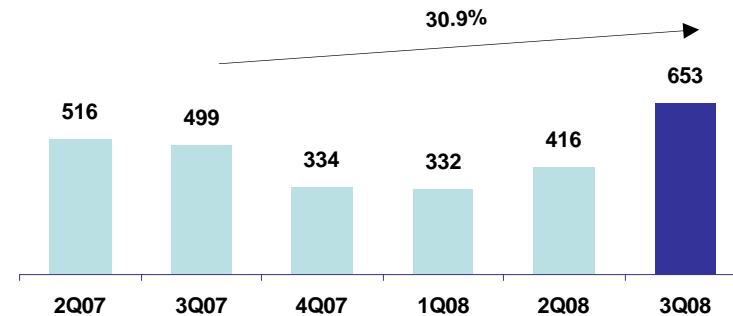
Group EBITDA
NIS MM



Group Net Income
NIS MM



Group Free Cash Flow ⁽¹⁾
NIS MM



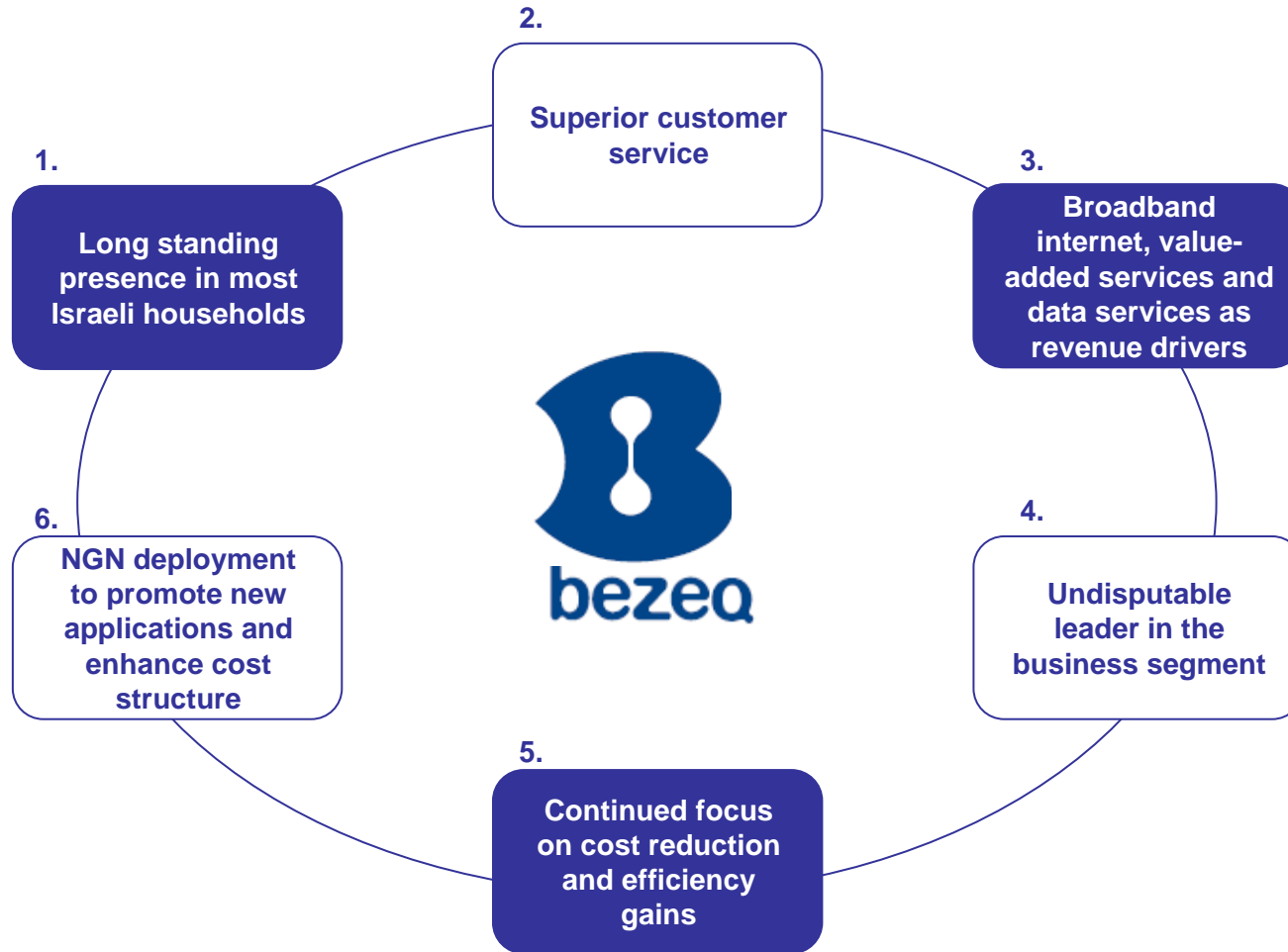
1. Free cash flow defined as Cash Flow from Operations – Net Capex



Bezeq Fixed-Line

Fixed-Line Overview

The leading fixed-line services operator in Israel



Fixed-Line 3Q08 Key Achievements

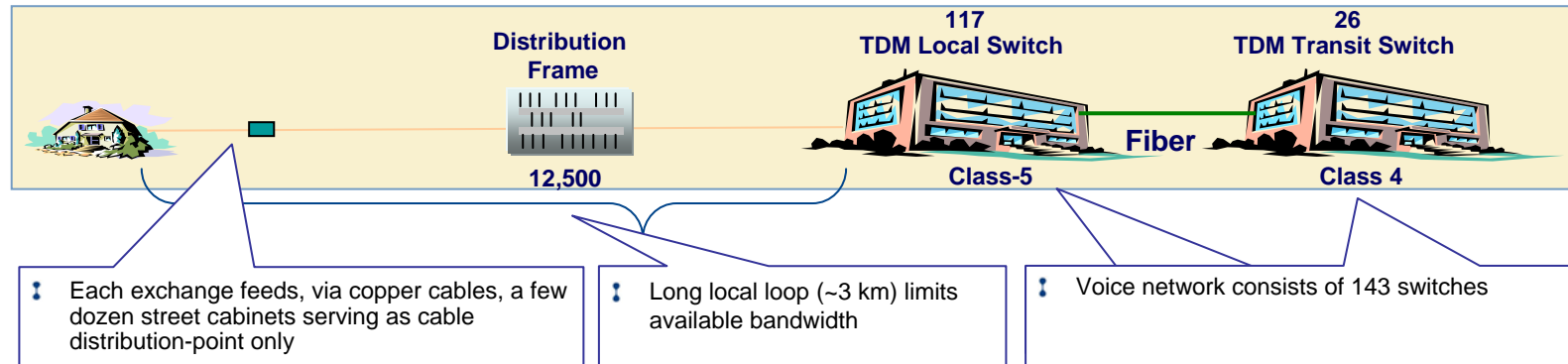
- ⌚ **Expected decline in fixed-line telephony revenues partially offset by growth in internet and data communications revenues**
 - ⌚ Continued growth in Internet broadband services, driven by bandwidth upgrades and successful commercial initiatives aimed at both existing and new subscribers such as household networks
 - ⌚ Net decline of 36,000 telephony access lines, 10 % lower than average lines lost in January-June 2008
 - ⌚ Accelerated growth in data communications and transmission services to business segment
- ⌚ **Continued focus on cost reduction and operational efficiency underpins strong EBITDA margin in 3Q08 of 45.8% - +6.3 p.p. margin improvement YoY**
 - ⌚ Wages control and reduction in general and operating expenses drive profitability improvements
- ⌚ **Increased focus on NGN deployment as progress is made in rollout and services in two districts**



Current Network Infrastructure

Nationwide copper-based network

Public Switched Telephone Network



- Fully digitalized switching network
- 2.7 million access lines
- Over 20,000 km of fiber optic lines and a 500 km fiber optic ring
- Network overlays
 - ADSL network for broadband internet services
 - IP network for IP-based virtual private network services

NGN Migration

The NGN project is in progress, with the successful launch of two operational deployments

Rationale

Today

- ⋮ Separate networks for PSTN/ISDN and data

Tomorrow

- ⋮ Migration of voice traffic from TDM to IP
- ⋮ High-speed broadband allow for advanced services offerings
- ⋮ Convergence-based services, enabling “Connected everywhere on any device”
- ⋮ Reduced time to market for new service introduction

The Project

- ⋮ Fiber-to-the-Curb
- ⋮ Easy access to ducts/limited civil engineering work
- ⋮ Modular deployment
 - ⋮ We will evaluate the progress of each stage, and update the deployment strategy and timeline on an annual basis

Long Term Benefits

- ⋮ Savings in Opex and Capex
- ⋮ Reduced physical assets requirement
- ⋮ Reduced equipment cost due to standardisation and wide scale deployment
- ⋮ Reduced maintenance costs in the long term
- ⋮ Other savings in the areas of personnel, IT, power consumption, bandwidth utilisation

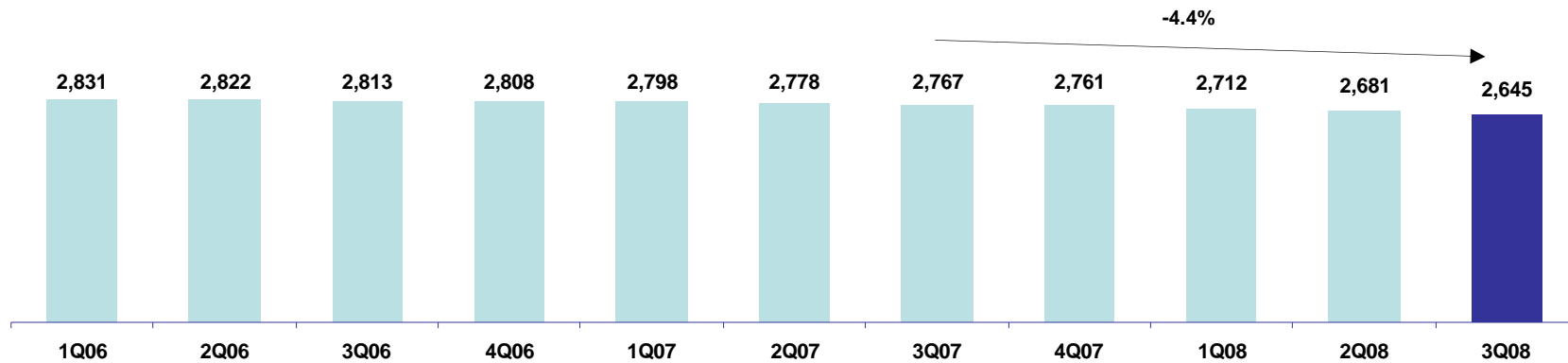


Domestic Telephony KPIs

Continued erosion in number of lines and ARPL⁽¹⁾

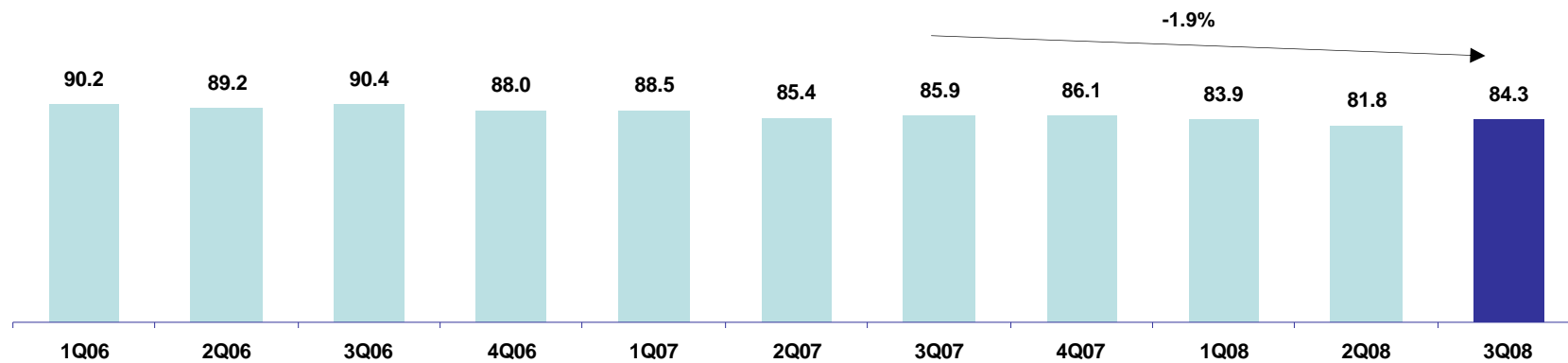
Access Lines

'000



ARPL⁽¹⁾

NIS/Month



1. Not including revenues from data communications and transmission services, services to communications providers, and contract and other work; retroactively adjusted to include revenue from installation fees and nominal figures instead of normalized ones

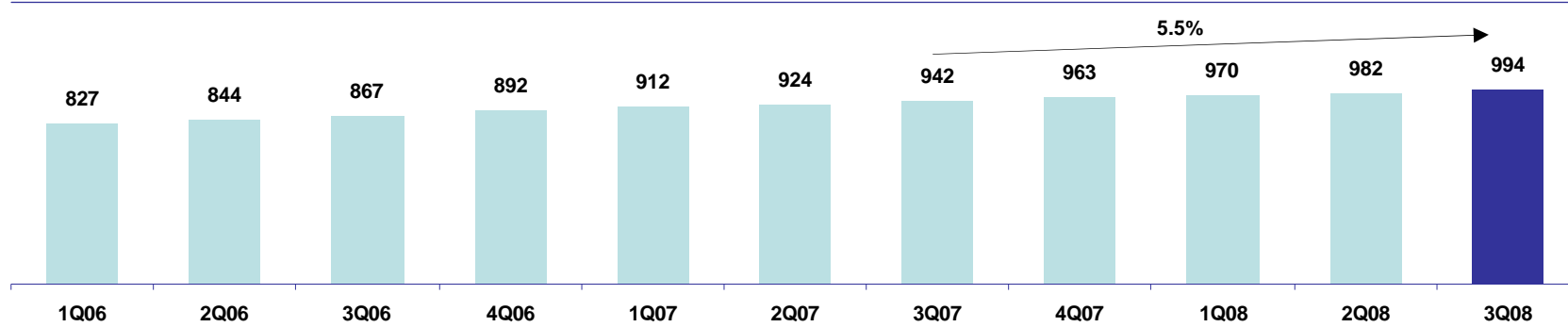


Broadband KPIs

Continued growth in number of subscribers and ARPU

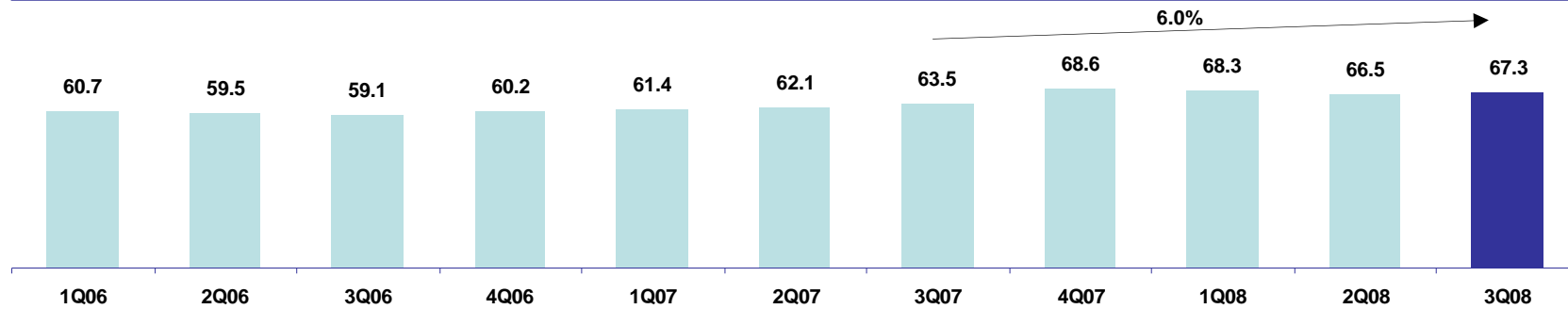
Broadband Subscribers

'000



ARPU⁽¹⁾

NIS/Month

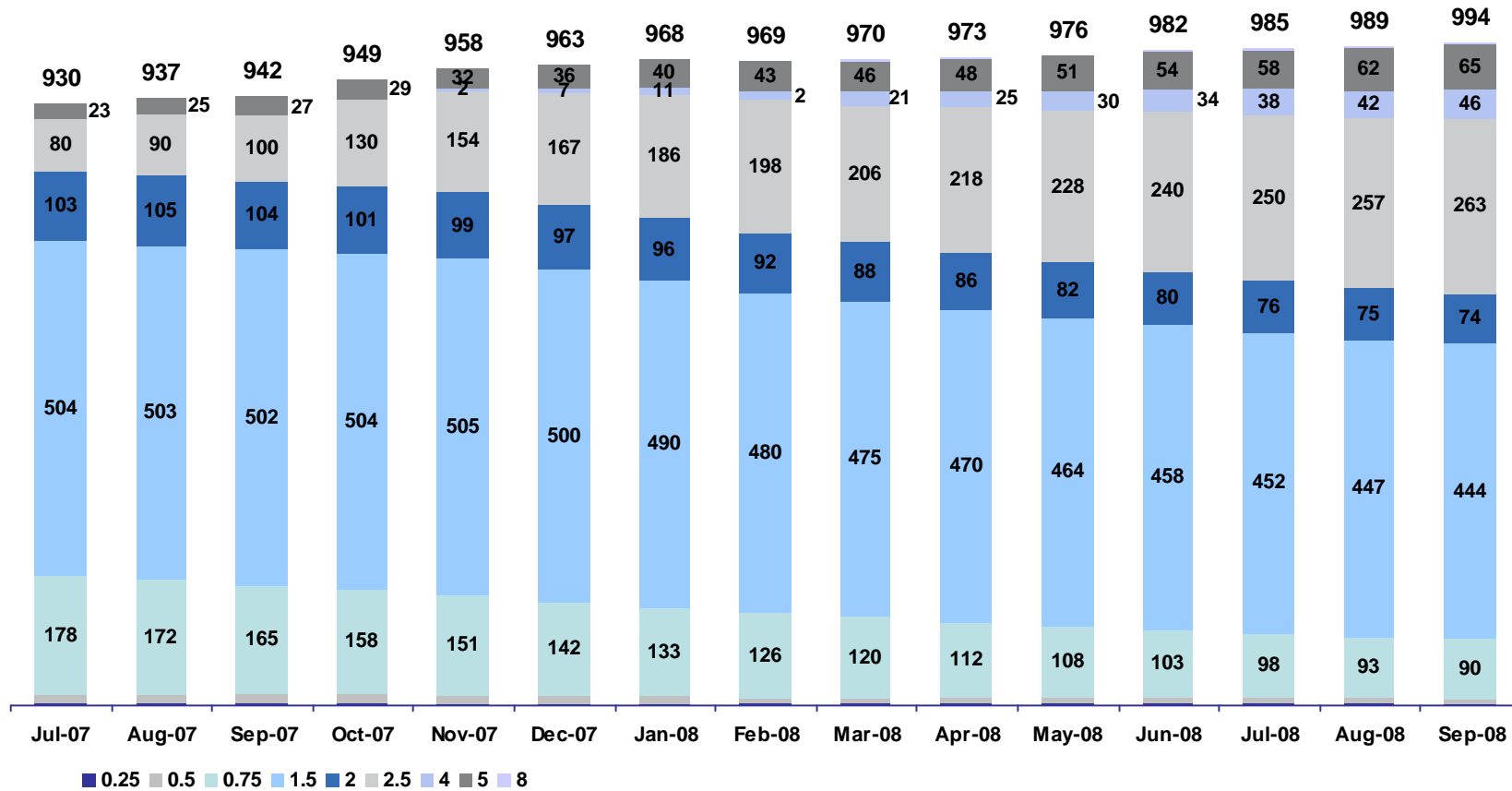


1. Retroactively adjusted to include revenue from home networks and internet dial up

Broadband KPIs

Bandwidth upgrade momentum supporting ARPU resilience

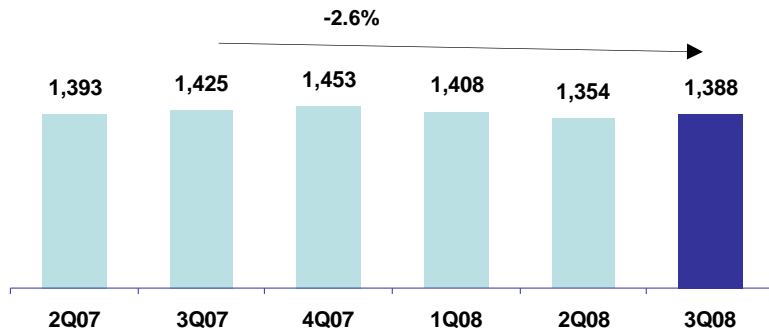
Broadband Subscribers Split by Bandwidth
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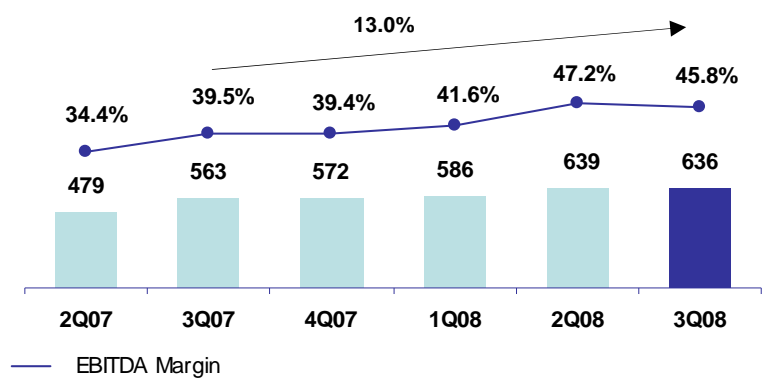
Fixed-Line Financial Performance

Robust EBITDA performance despite continued erosion in revenues

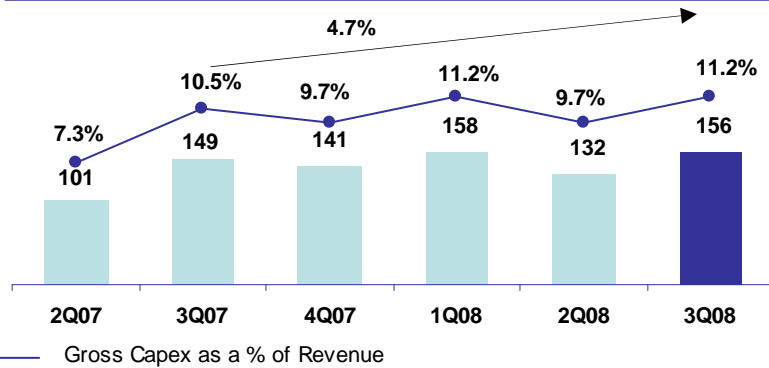
Fixed-Line Revenue
NIS MM



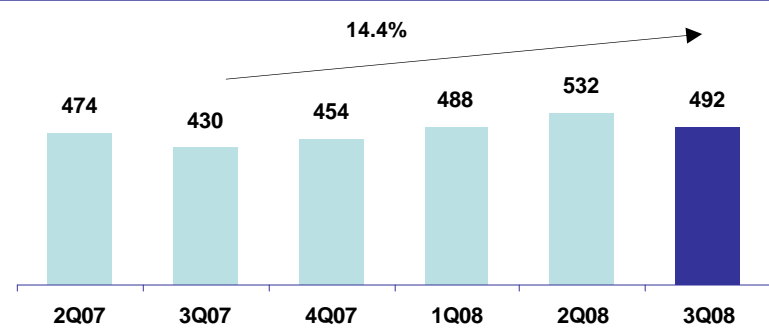
Fixed-Line EBITDA
NIS MM



Fixed-Line Gross Capex
NIS MM



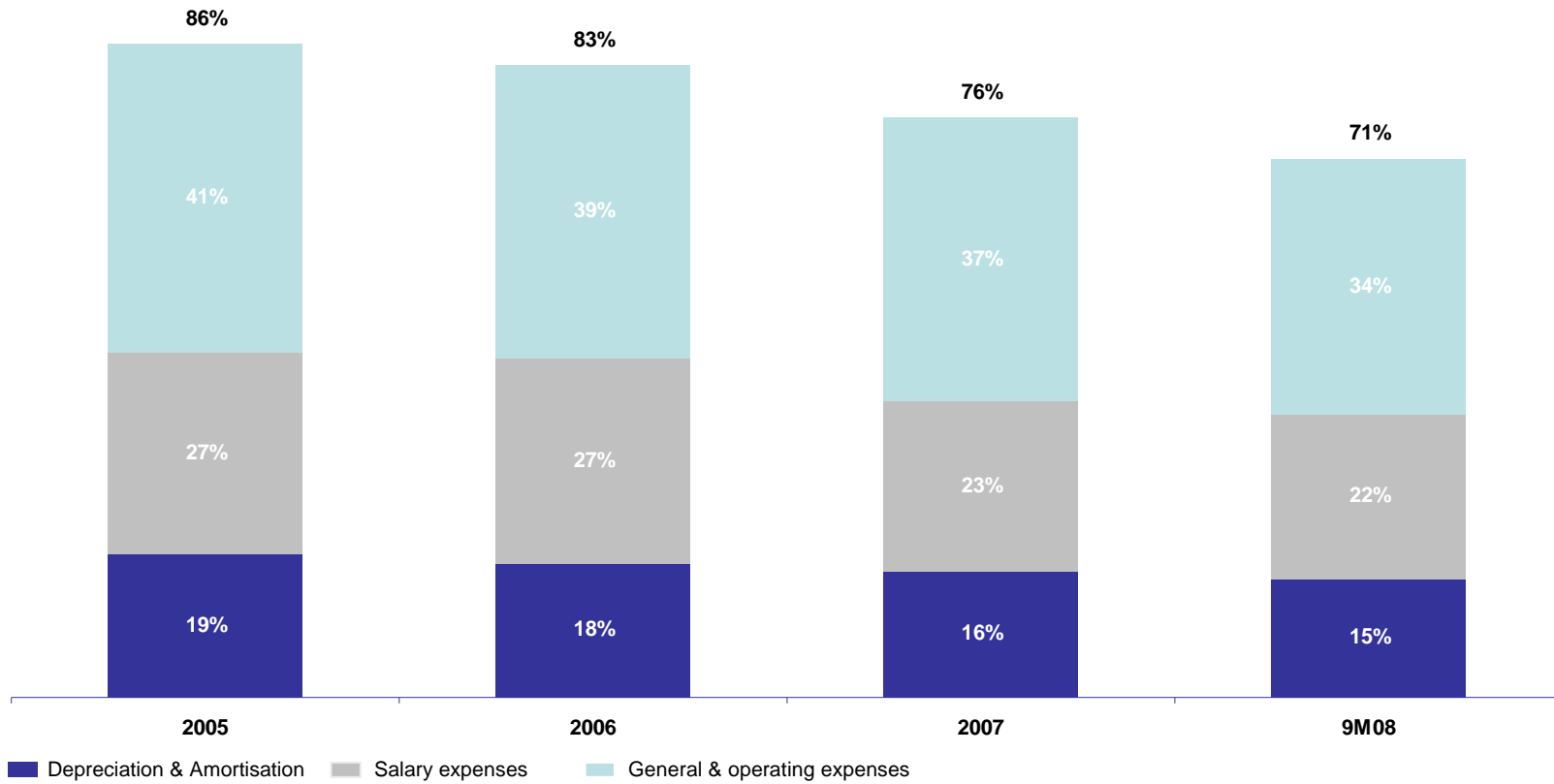
Fixed-Line EBITDA – Net Capex
NIS MM



Cost Structure Development

Continued reduction of the cost base underpins high profitability levels

Cost Structure
% of revenues



Source Bezeq



Bezeq
International

Bezeq International Overview

Leader in the ISP and IDD markets in Israel with growing operations in the Enterprise market



Bezeq International 3Q08 Key Achievements

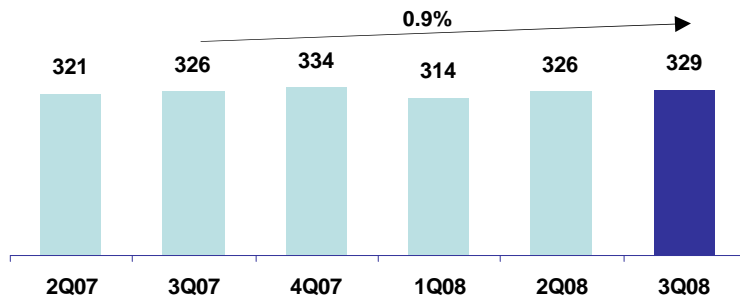
- ‡ **Leading market share in Internet services and direct-dial international calls**
- ‡ **Revenue in core business areas such as ISP, outgoing calls and enterprise solutions offsets decline in hubbing traffic between foreign operators using Bezeq International switches**
 - ‡ Revenues from enterprise integration solutions continue to grow, reinforcing Bezeq International's market position
 - ‡ Growth in revenues driven by increase in bandwidth and value-added services
- ‡ **Focus on cost control continue to deliver profitability improvement**
- ‡ **Bezeq International continues to lead in quality of service and market perceptions**



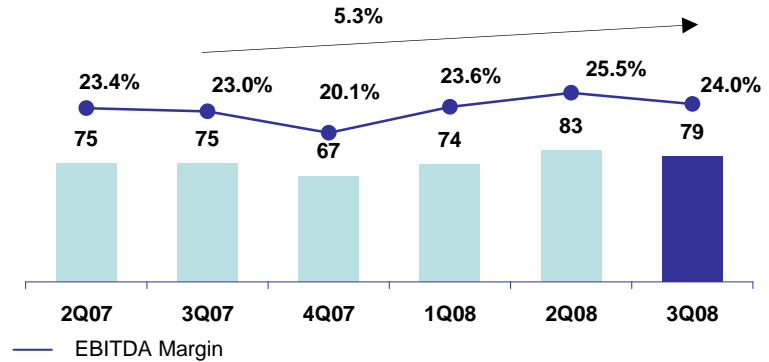
Bezeq International Financial Performance

Stable revenues combined with sustainable EBITDA margins and positive free cash flow

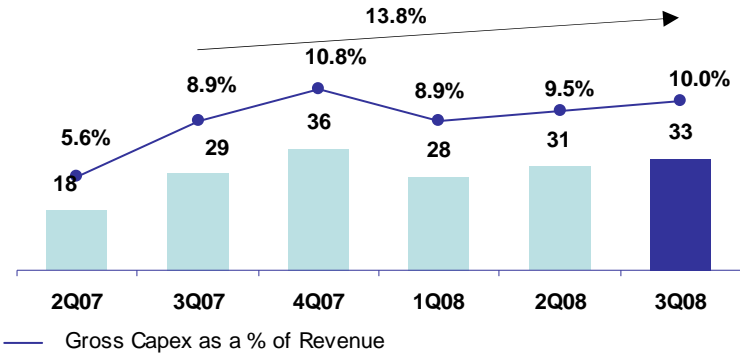
Bezeq International Revenue
NIS MM



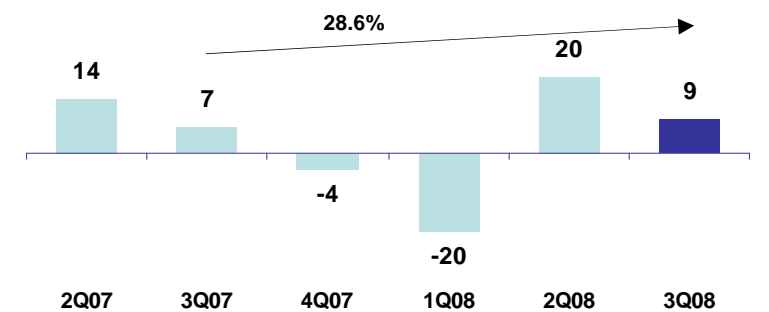
Bezeq International EBITDA
NIS MM



Bezeq International Gross Capex
NIS MM



Bezeq International Free Cash Flow ⁽¹⁾
NIS MM



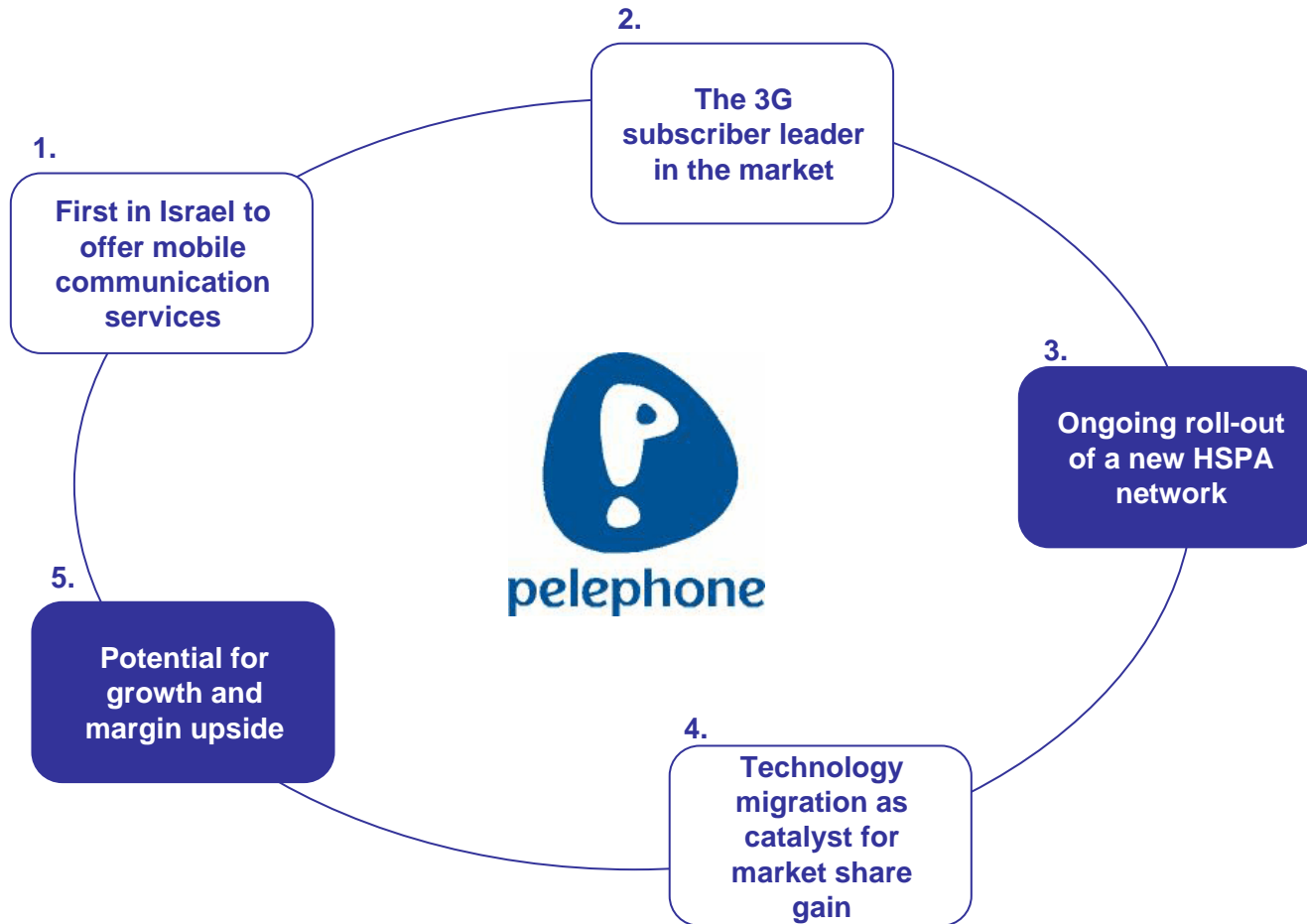
1. Free cash flow defined as Cash Flow from Operations – Net Capex



pelephone

Pelephone Overview

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



Pelephone 3Q08 Key Achievements

- ‡ **Double-digit improvements in operating profit and EBITDA**
 - ‡ EBITDA of NIS 422 MM and EBITDA margin at 34.8% are Pelephone's highest ever
- ‡ **Leadership position in 3G services, with 3G subscribers representing 40% of Pelephone's subscriber base as of 30 September 2008**
 - ‡ 16.2% of mobile service revenues coming from content, data and VAS, making Pelephone a leader in the field
- ‡ **62k net subscriber additions in 3Q08 – the highest in the Israeli cellular market**
- ‡ **Continued roll-out of the HSPA network**
 - ‡ Expect network to be operational by the beginning of 2009

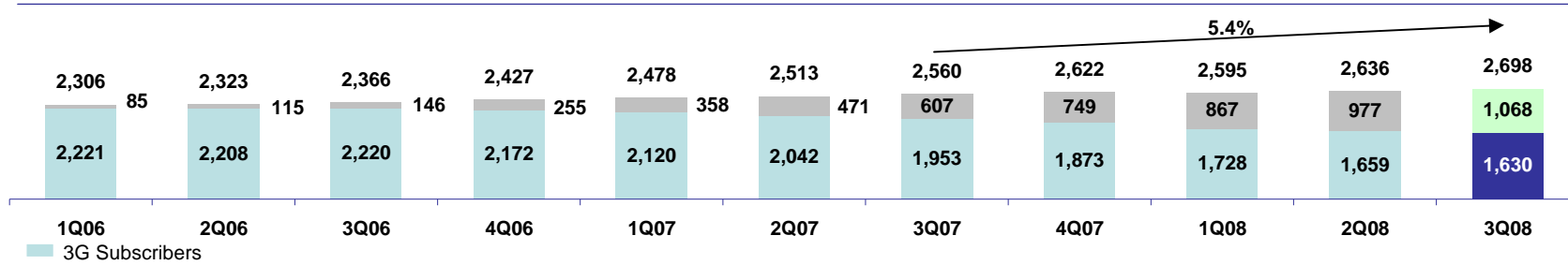


Telephone KPIs

5.4% YoY increase in subscribers driven by 3G additions; ARPU revitalisation after tariff decline in 1Q08

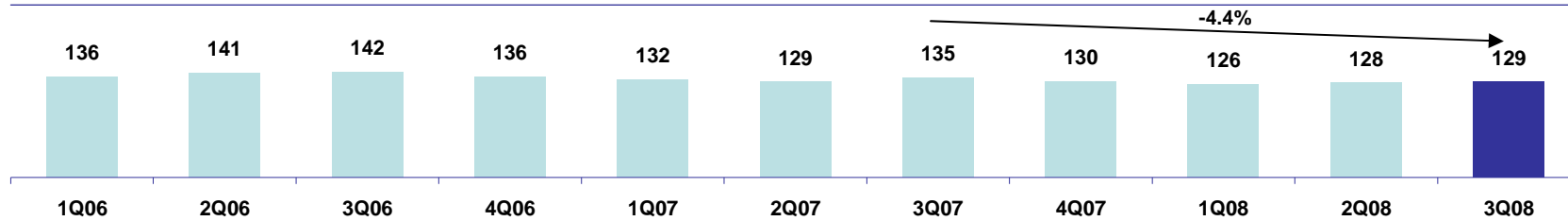
Subscribers

'000



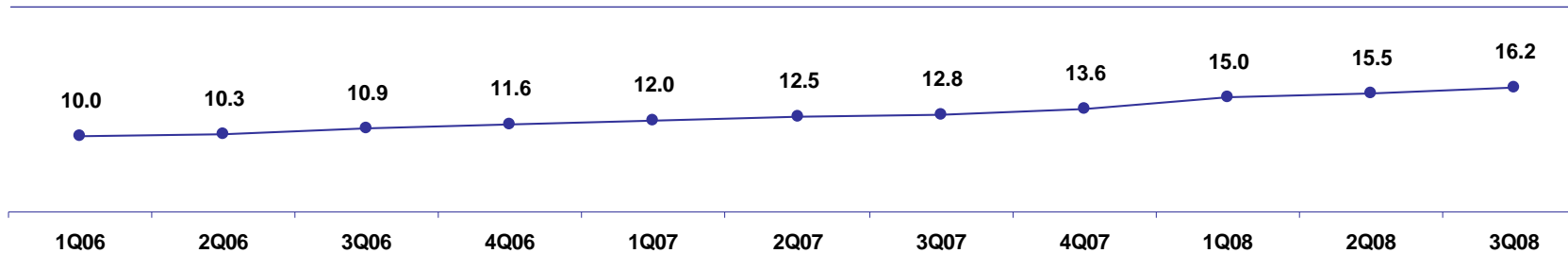
ARPU

NIS/Month



Data and VAS Revenue as a Percentage of Cellular Service Revenue ⁽¹⁾

%



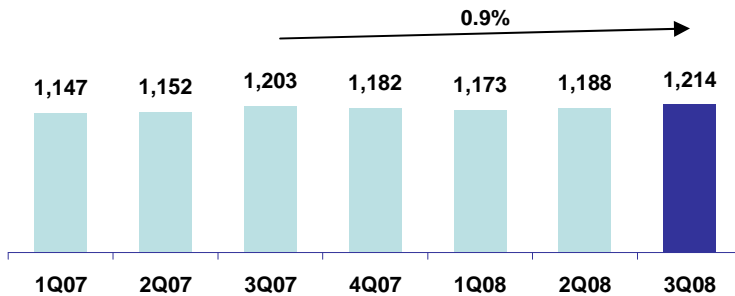
1. Includes telephony and data services but excludes sale of equipments



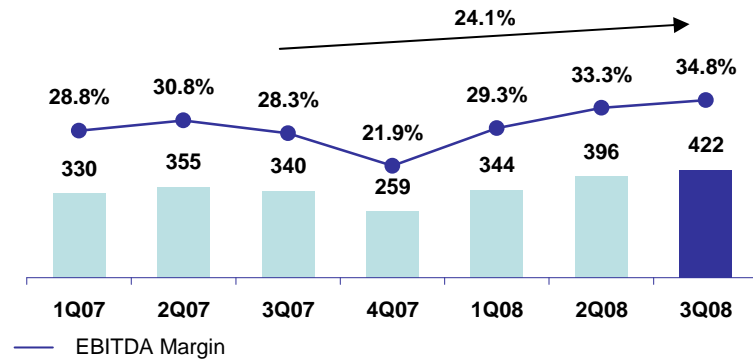
Pelephone Financial Performance

Record quarterly EBITDA and EBITDA margin, HSPA investments impacting Capex

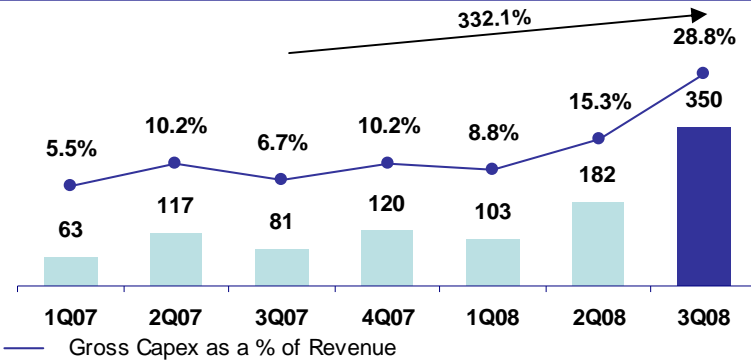
Pelephone Revenue
NIS MM



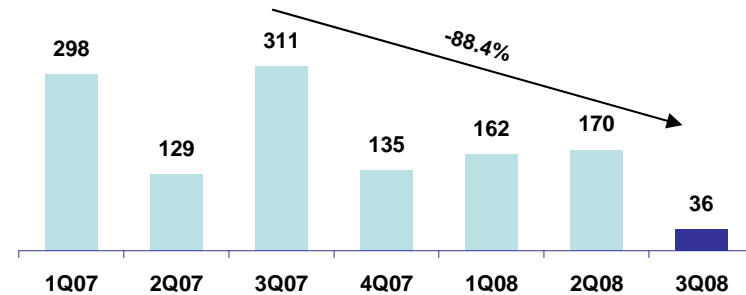
Pelephone EBITDA
NIS MM



Pelephone Gross Capex
NIS MM



Pelephone Free Cash Flow (1)
NIS MM

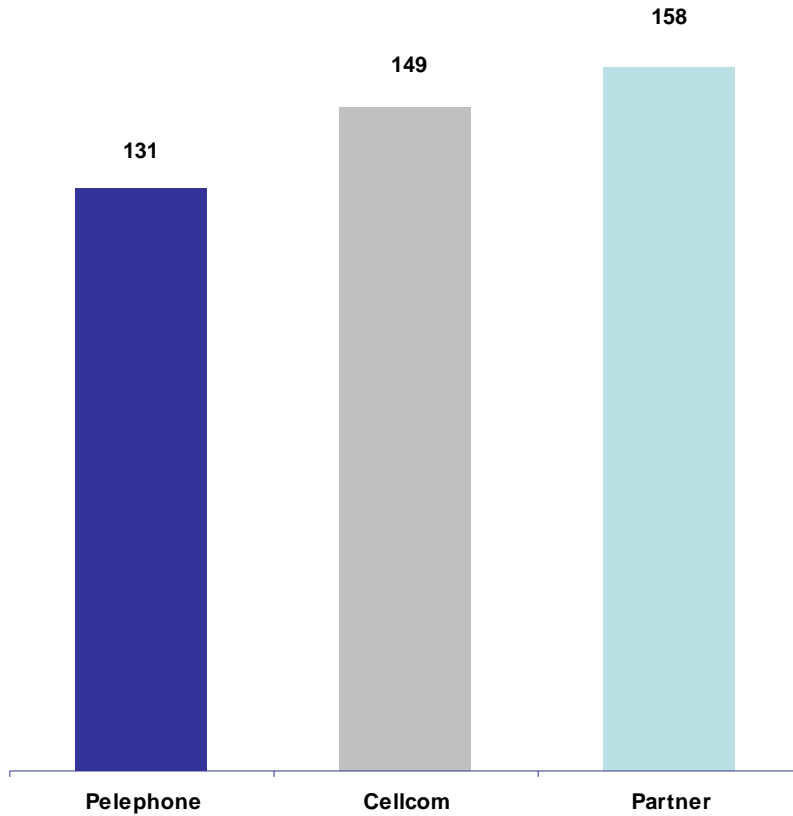


1. Free cash flow defined as Cash Flow from Operations – Net Capex

Further Upside Potential

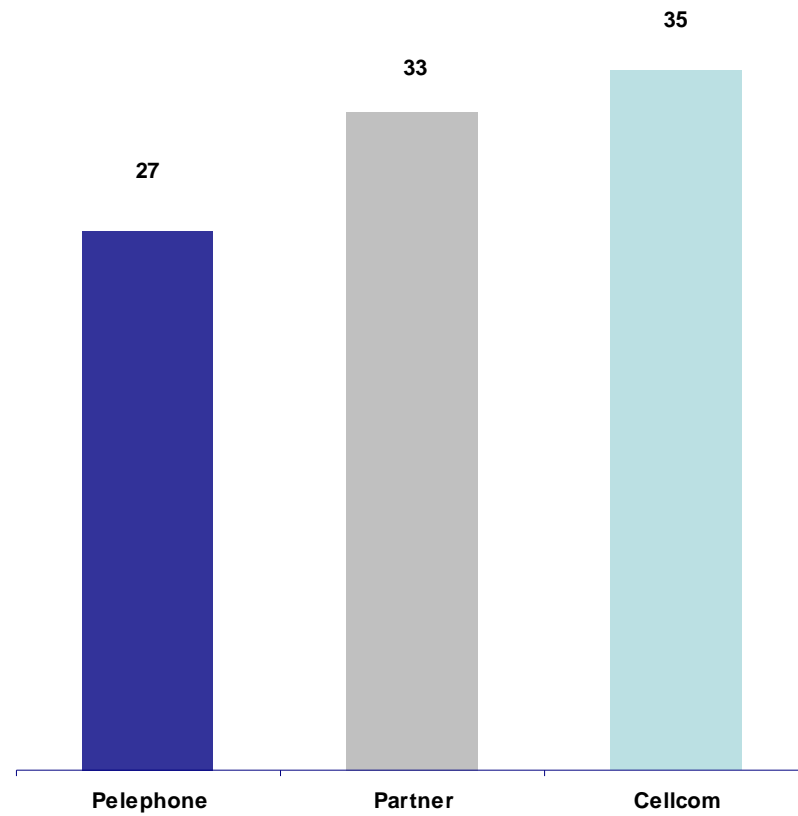
Network migration will act as a catalyst for Pelephone to increase revenue and profitability

ARPU
2007, Monthly, NIS



Source: Company filings

EBITDA Margin
2007, %



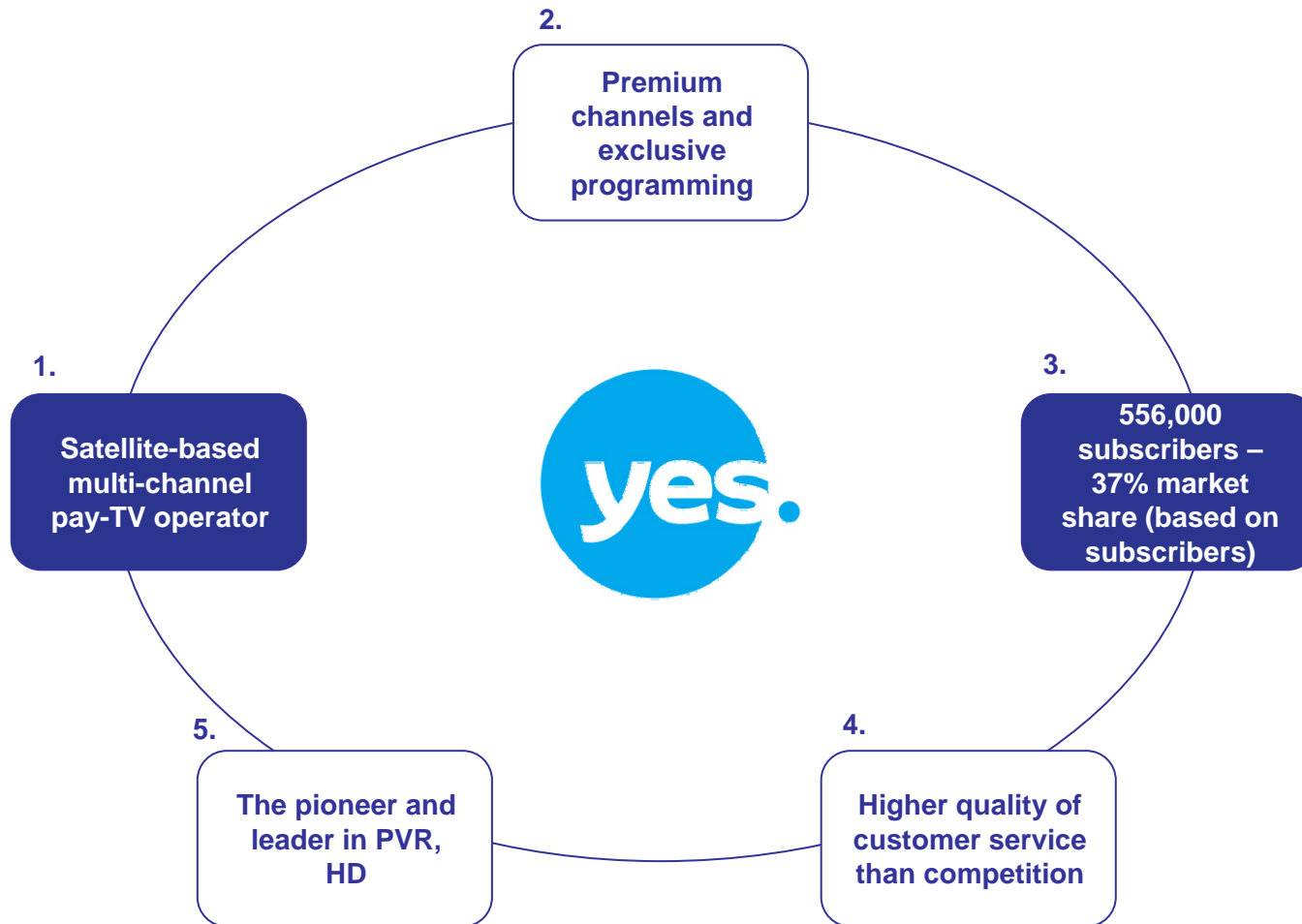
Source: Company filings





yes Overview

The premium pay-TV operator in Israel



yes 3Q08 Key Achievements

- ⌚ **Solid revenue growth driven by 5.5% ARPU increase and 1.5% subscriber growth year-over-year**
 - ⌚ Continued success of yesMax PVR offering

- ⌚ **Highest quarterly EBITDA ever – NIS 111 MM**
 - ⌚ EBITDA margin of 29.6%

- ⌚ **Continued focus on premium movies and TV series content**

- ⌚ **yes managed to consolidate its revenue-based market share to 41%**

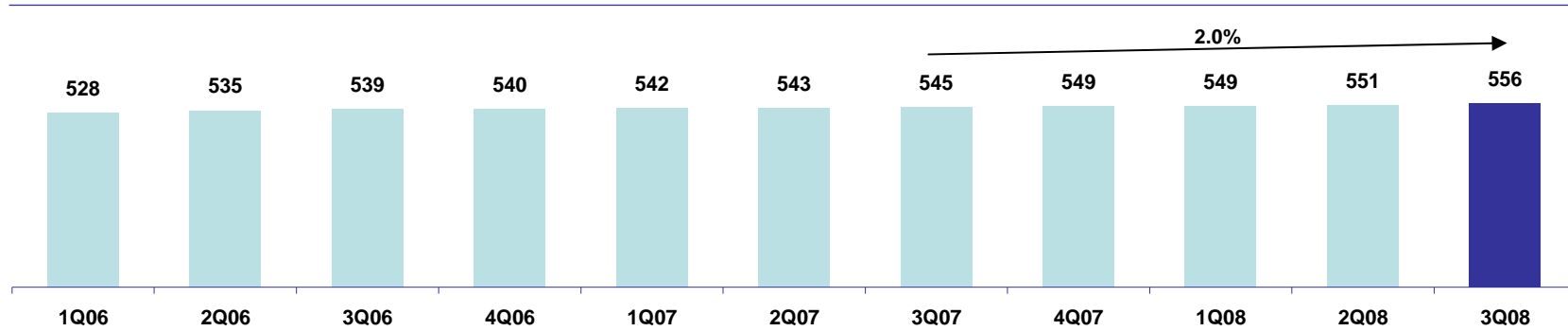


yes KPIs

Stable subscriber base, continued YoY ARPU improvement

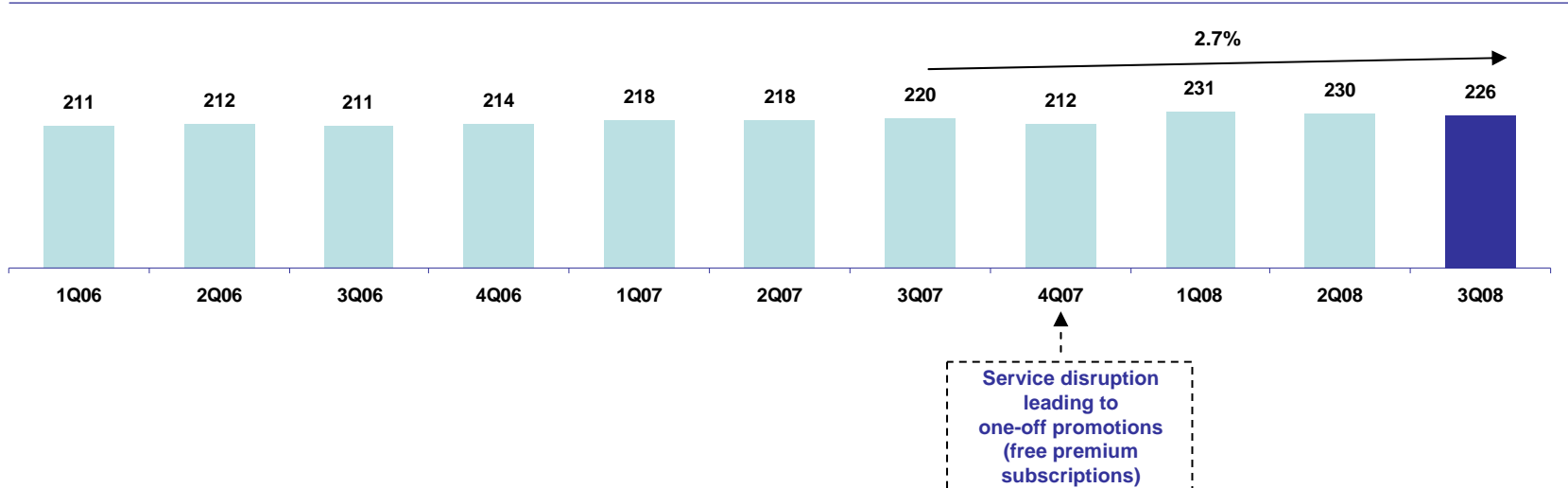
Subscribers

'000



ARPU

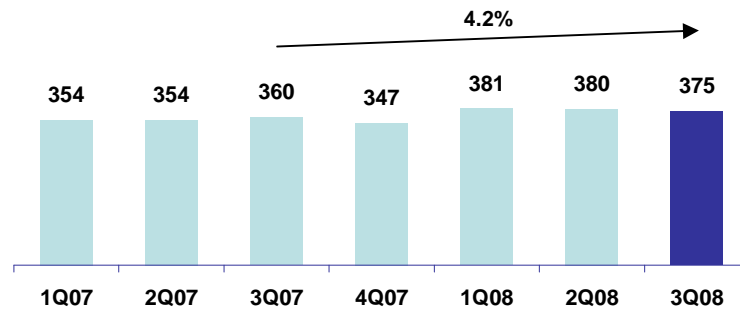
NIS/Month



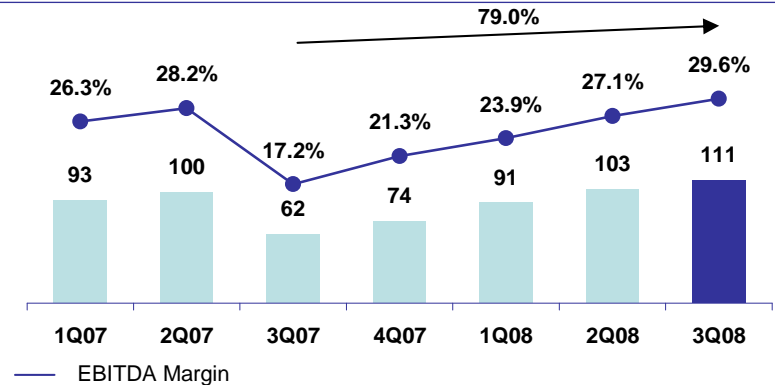
yes Financial Performance

Record quarterly EBITDA level and margin; back to free cash flow generation

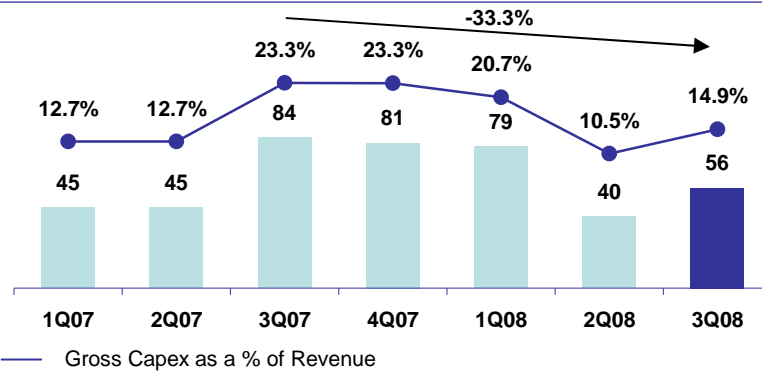
yes Revenue
NIS MM



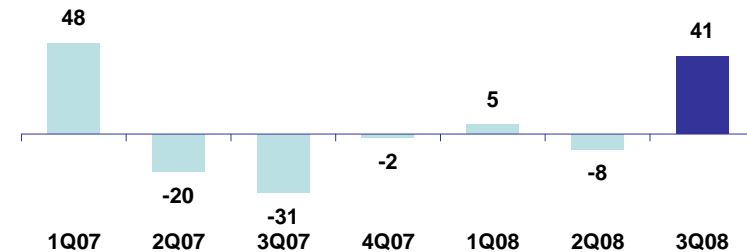
yes EBITDA
NIS MM



yes Gross Capex
NIS MM



yes Free Cash Flow ⁽¹⁾
NIS MM



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





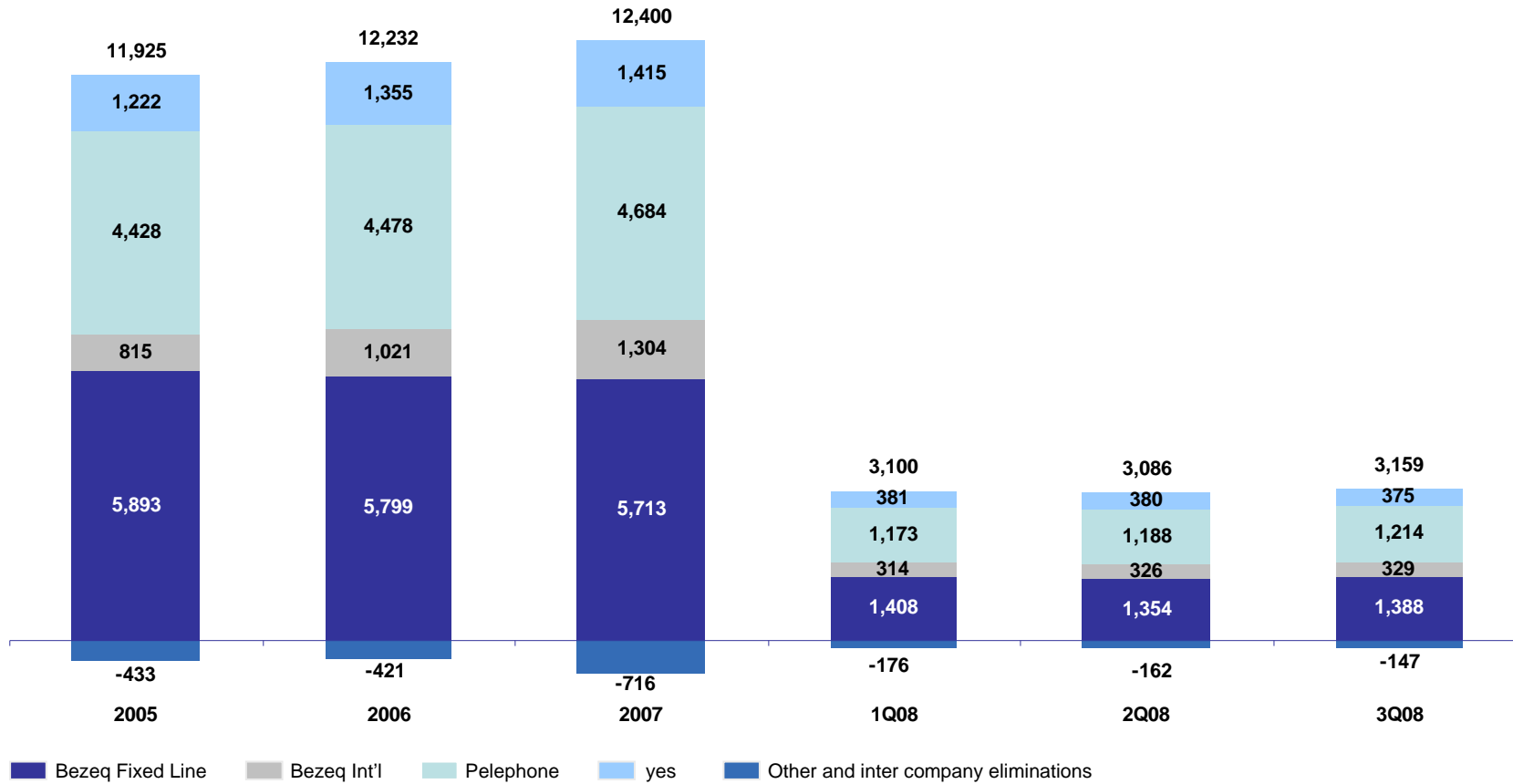
Group Financial Review

Revenue Development

Revenue at the subsidiaries net of intercompany eliminations

Group Revenue
NIS MM

'05-07 CAGR: +2.0%

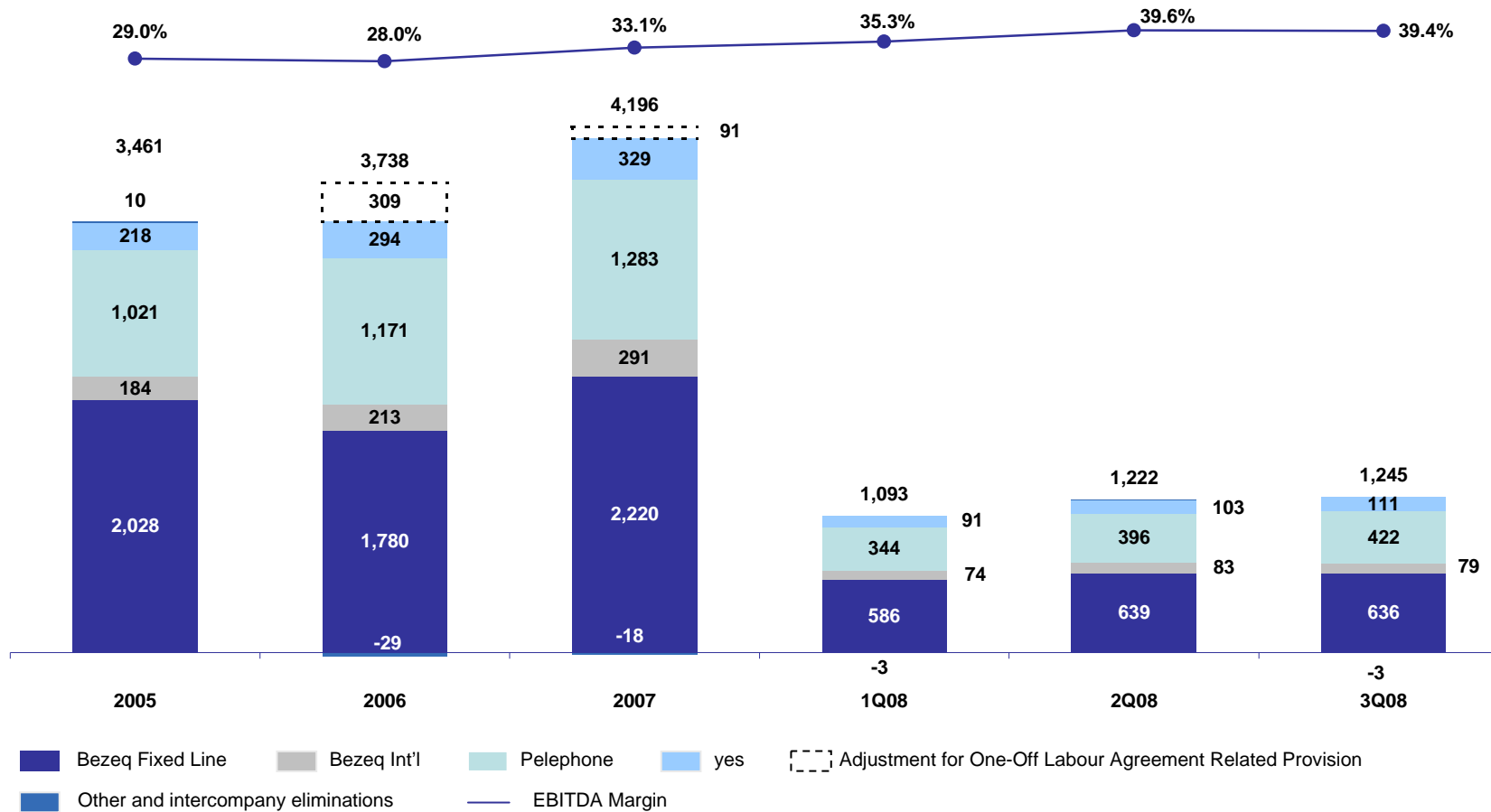


EBITDA Development

Significant group EBITDA margin improvement driven by Bezeq Fixed-Line and Telephone

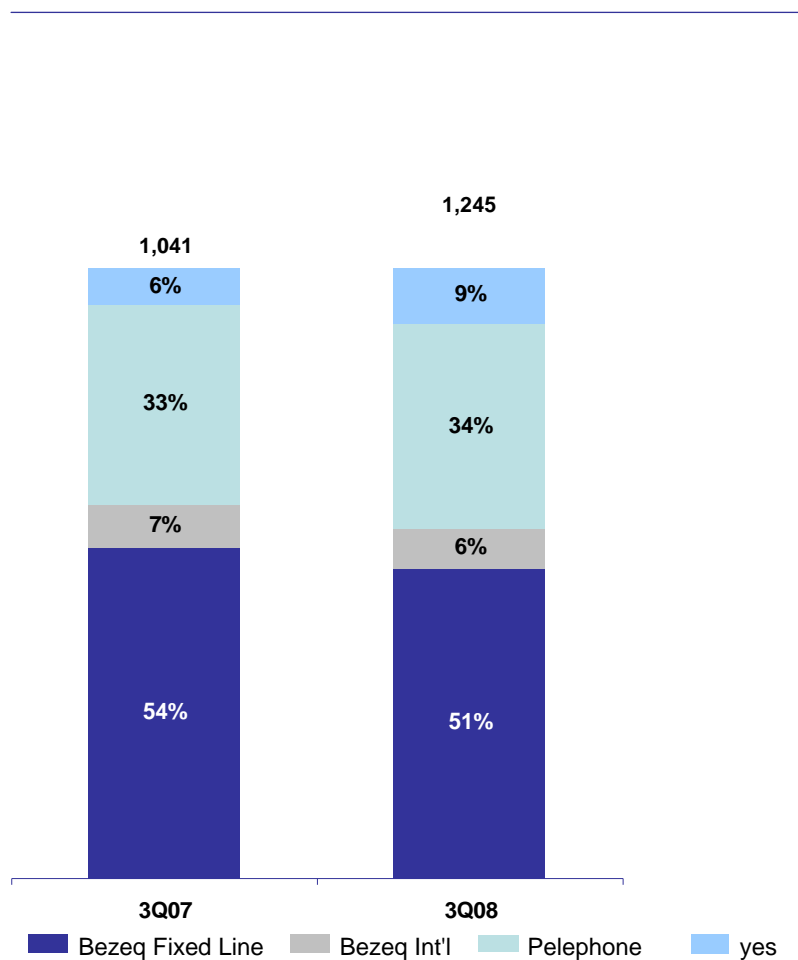
Group EBITDA
NIS MM

'05-07 CAGR: +10.1%



EBITDA Mix and EBITDA Margins

Subsidiaries' Contribution to Consolidated EBITDA
NIS MM



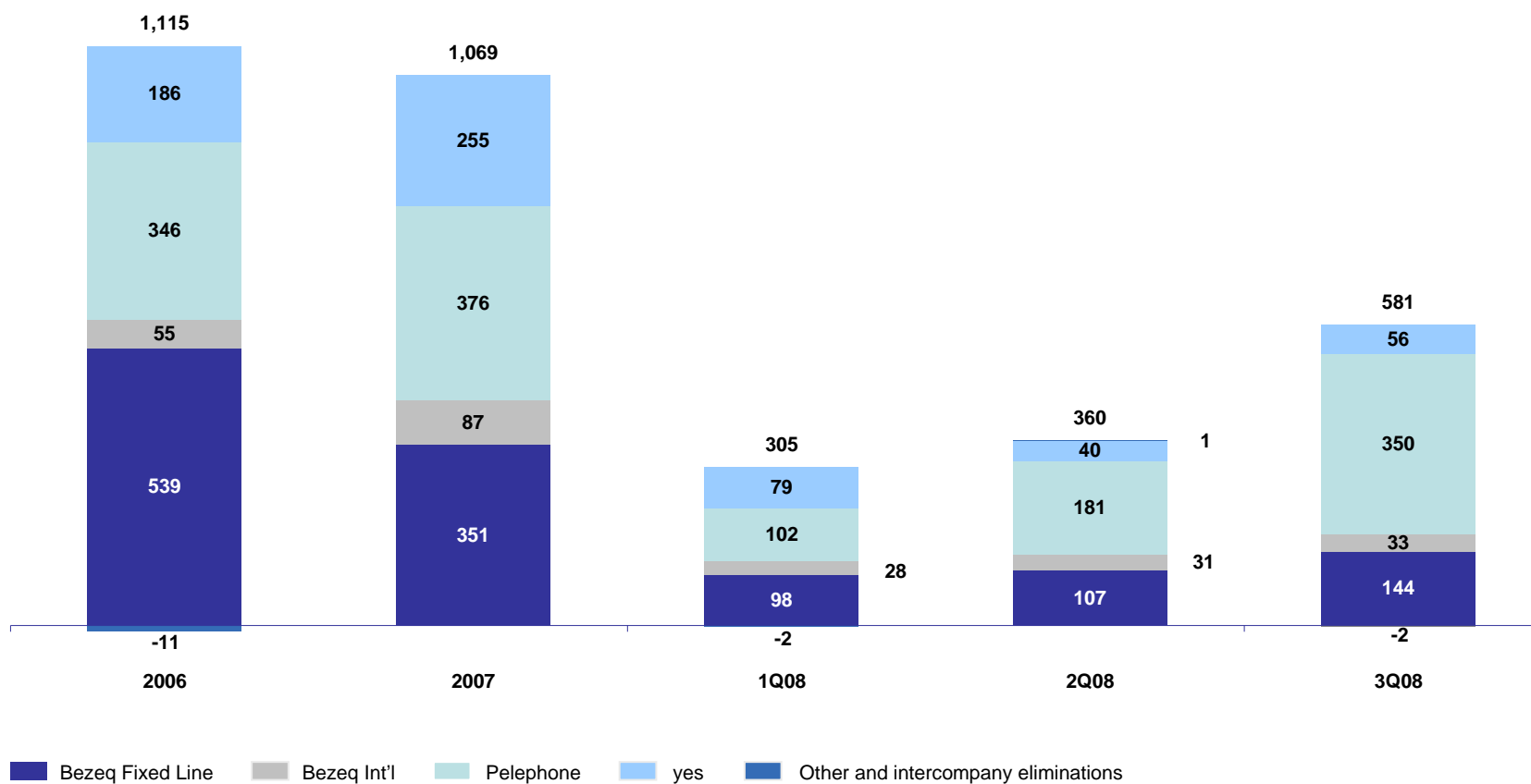
EBITDA Margin per Division

	3Q07	3Q08	Change (p.p.)
Bezeq Fixed Line	39.5%	45.8%	+ 6.3 p.p.
Bezeq International	23.0%	24.0%	+ 1.0 p.p.
Pelephone	28.3%	34.8%	+ 6.5 p.p.
yes	17.2%	29.6%	+ 12.4 p.p.
Bezeq Group	33.2%	39.4%	+ 6.2 p.p.

Capex Development

Net Capex increase reflects ongoing deployment of Pelephone's HSPA network and lower proceeds from property sales

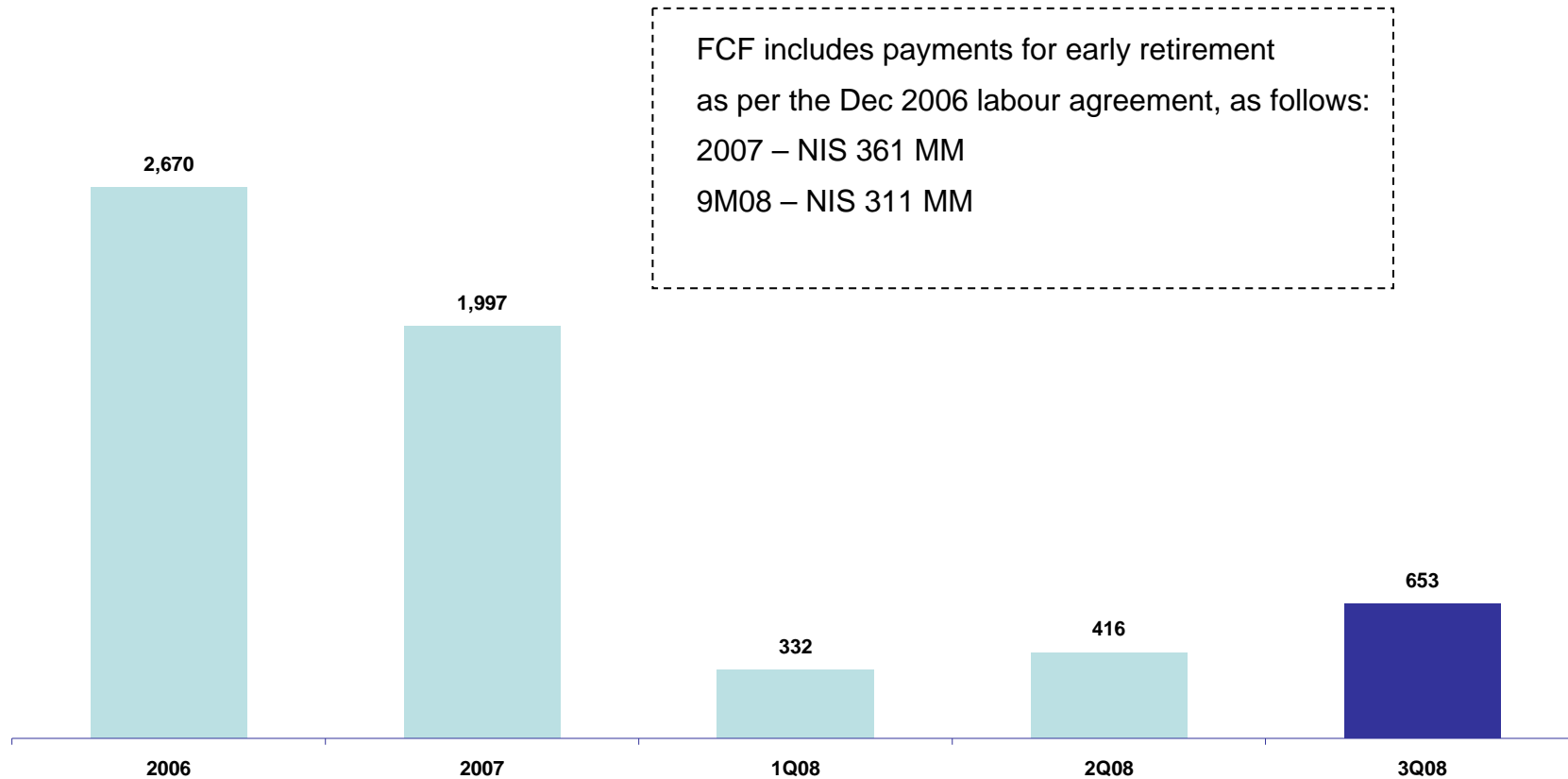
Group Net Capex Development
NIS MM



Free Cash Flow Development

Strong and steady cash flow generation

Group Free Cash Flow
NIS MM



Consolidated P&L

(NIS MM, IFRS)	3Q07	3Q08	Change	9M07	9M08	Change
Revenues	3,139	3,159	0.6%	9,280	9,345	0.7%
Cost and Expenses						
Depreciation and Amortisation	445	423	-4.9%	1,323	1,274	-3.7%
Salary	597	573	-4.0%	1,757	1,774	1.0%
Operating and General Expenses	1,475	1,342	-9.0%	4,307	4,025	-6.5%
Other Operating Expenses/(Income), Net	26	(1)	–	70	(14)	–
Operating Profit	596	822	37.9%	1,823	2,286	25.4%
<i>% Margin</i>	19.0%	26.0%	–	19.6%	24.5%	–
EBITDA						
EBITDA	1,041	1,245	19.6%	3,146	3,560	13.2%
<i>% Margin</i>	33.2%	39.4%	–	33.9%	38.1%	–
Profit for the period						
Profit for the period	330	431	30.6%	1,056	1,229	16.4%
Minority Interest	75	(31)	–	41	(100)	–
Net Income attributed to Bezeq shareholders	255	462	81.2%	1,015	1,329	30.9%
<i>% Margin</i>	8.1%	14.6%	–	10.9%	14.2%	–



Consolidated Cash Flow Statement

(NIS MM, IFRS)	3Q07	3Q08	Change	9M07	9M08	Change
Net Income	330	431	30.6%	1,056	1,229	16.4%
Adjustments:						
Depreciation and Amortisation	445	423	-4.9%	1,323	1,274	-3.7%
Change in Working Capital	(159)	99	—	(614)	(557)	-9.3%
Other Adjustments	198	281	—	611	701	—
Cash Flow from Operations	814	1,234	51.6%	2,376	2,647	11.4%
Purchase of Property, Plant and Equipment	(271)	(345)	27.3%	(681)	(962)	41.3%
Investment in Intangible Assets and in Other Expenses	(61)	(250)		(168)	(385)	129.2%
Proceeds from Sale of Property	17	14	-17.6%	137	101	-26.3%
Other Investments, Net	27	0	—	68	320	—
Cash Flow from Investment Activities	(288)	(581)	101.7%	(644)	(926)	43.8%
Repayment of Debentures/Loans	(2,443)	(174)	-92.9%	(2,711)	(814)	-70%
Receipt of Debentures/Loans	1,058	—	—	1,864	—	—
Dividends Paid	—	—	—	(2,100)	(679)	-67.7%
Interest Paid	(159)	(31)	-80.5%	(357)	(266)	-25.5%
Other	77	10	-87.0%	63	43	-31.7
Cash Flow from Financing Activities	(1,467)	(195)	-86.7%	(3,241)	(1,716)	-47.1%
Net Increase in Cash and Cash Equivalents	(941)	458	-148.7%	(1,509)	5	-100.3%
Cash and Cash Equivalents, BoP	2,063	740	-64.1%	2,632	1,193	-54.7%
Exchange Rate Fluctuations	(17)	—	—	(18)	(10)	-44.4%
Cash and Cash Equivalents, EoP	1,105	1,198	8.4%	1,105	1,188	7.5%



Consolidated Balance Sheet

(NIS MM, IFRS)	As of 30-Sep-07	As of 30-Sep-08	Change
Assets			
Cash and Cash Equivalents	1,105	1,198	8.4%
Other Current Assets	3,687	2,842	-22.9%
Total Current Assets	4,792	4,040	-15.7%
Property, Plant and Equipment	6,075	5,962	-1.9%
Intangible Assets	2,526	2,665	5.5%
Other Non-Current Assets	2,156	2,071	-3.9%
Total Non-Current Assets	10,757	10,698	-0.5%
Total Assets	15,549	14,738	-5.2%
Liabilities			
Loans and Credit	1,971	1,014	-48.6%
Other Current Liabilities	4,128	3,753	-9.1%
Total Current Liabilities	6,099	4,767	-21.8%
Debentures	4,425	3,966	-10.4%
Obligations to Banks	342	1,084	217.0%
Other Non-Current Liabilities	828	987	19.2%
Total Non-Current Liabilities	5,595	6,037	7.9%
Total Liabilities	11,694	10,804	-7.6%
Total Shareholders' Equity	3,855	3,934	2.0%
Total Shareholder's Equity and Liabilities	15,549	14,738	-5.2%



