

Forward-Looking Information and Statement

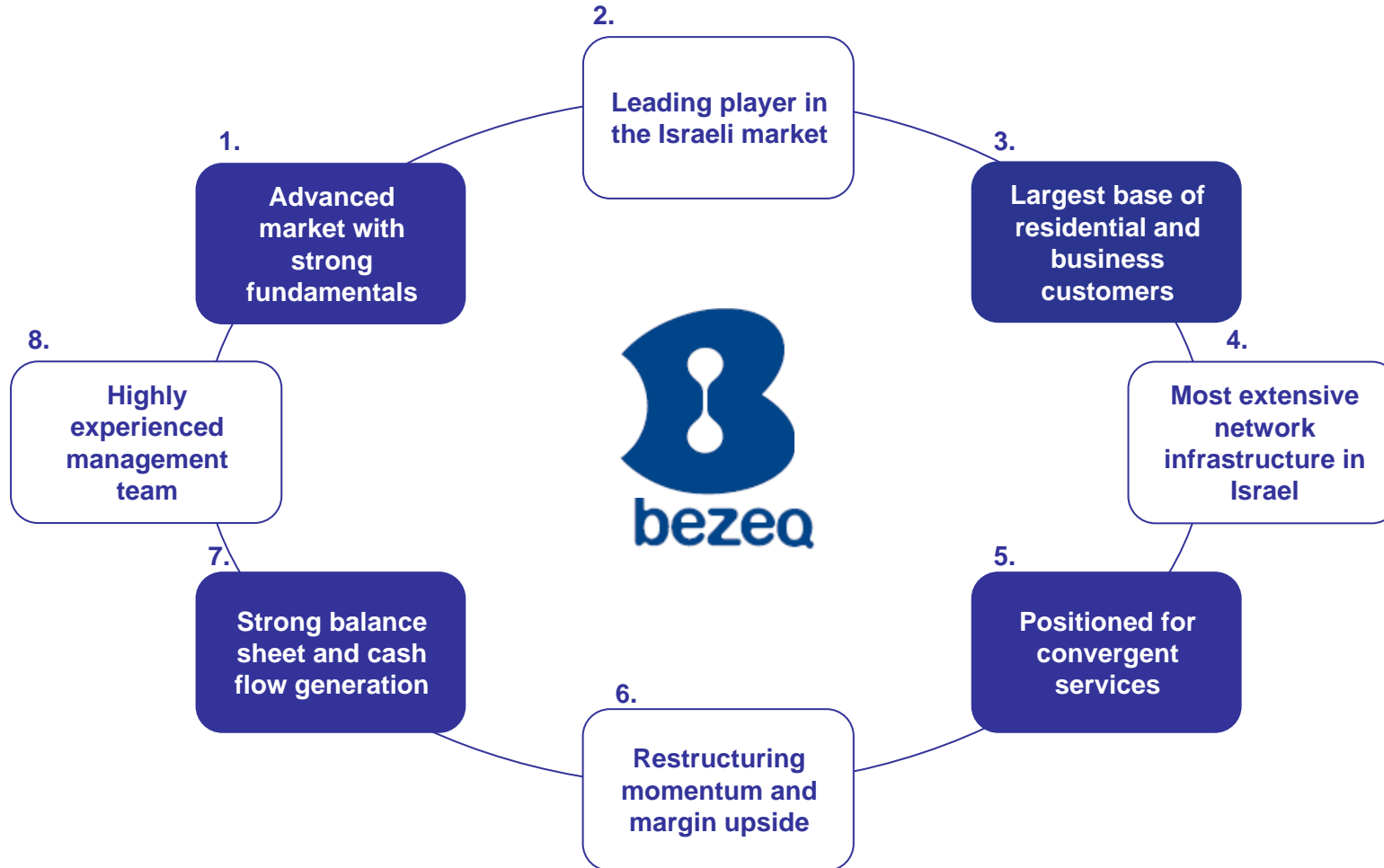
This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunication Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management’s expectations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



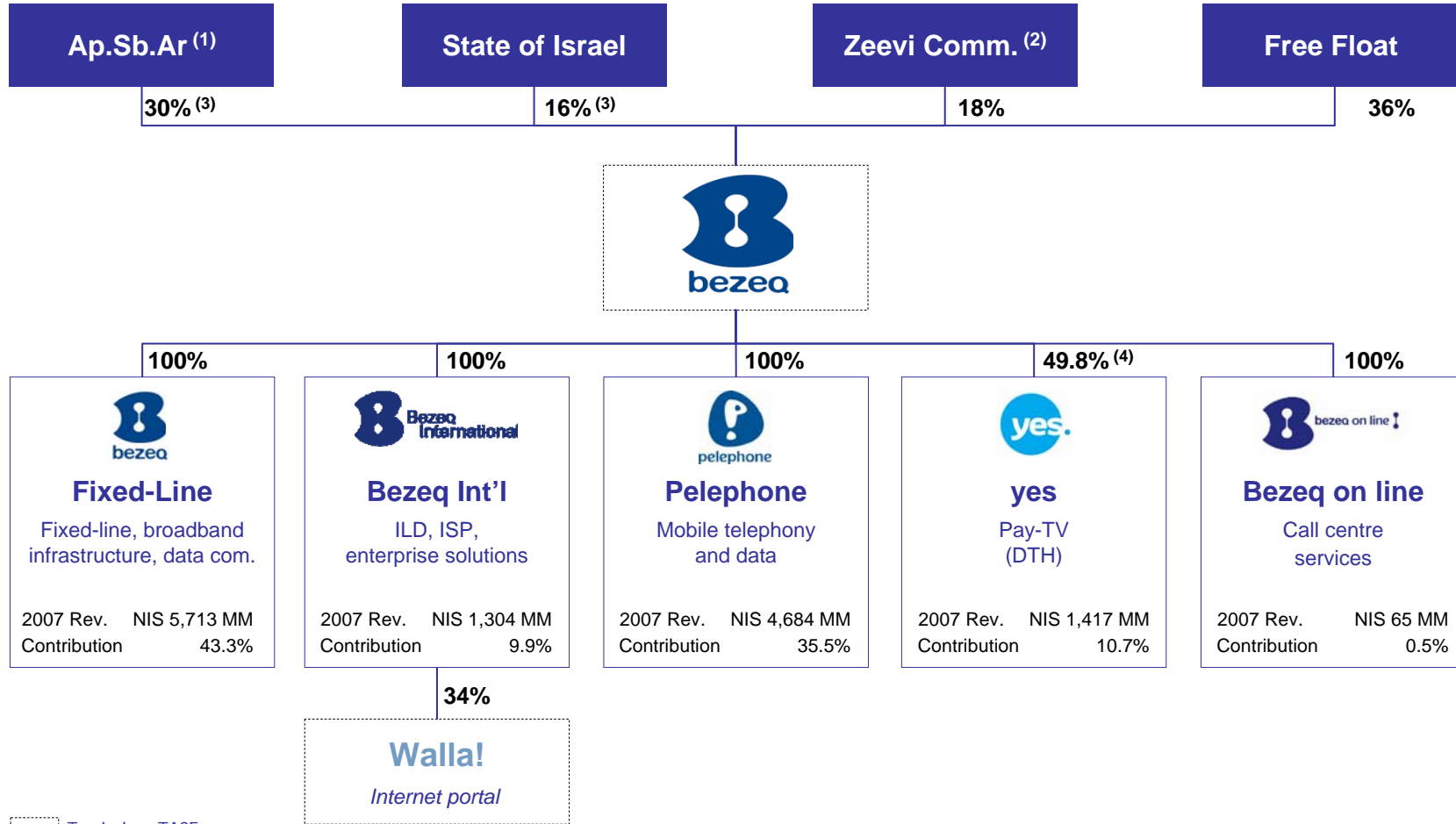
Bezeq Group 2Q08 Key Achievements

- **Strong, double-digit, year-over-year improvements in Group-wide operating profit, net profit and EBITDA**
- **Impressive EBITDA improvement in Bezeq Fixed-Line despite the slight decline in revenues**
 - Continued improvement of the fixed-line cost structure supports record profitability levels
 - Telephony revenues decrease modestly due to the introduction of number portability and the reduction of interconnect fees
 - However, growth in Internet services and continued focus on the enterprise market offset most of the fixed-line telephony revenues erosion
- **Double-digit operating profit and EBITDA growth at Pelephone, both year-over-year and sequentially**
 - Continued leadership in 3G subscribers drives data & content revenue growth
 - 41,000 net subscriber additions in 2Q08 – the highest in the Israeli cellular market
- **Solid free cash flow performance enables NIS 835 MM dividend – 100% payout ratio for 1H08**



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. The Zeevi stake is administered on behalf of a consortium of 7 Israeli banks
 3. Ap.Sb.Ar also owns a call option on approximately an additional 11% of the Bezeq Group, currently held by the State of Israel
 4. 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

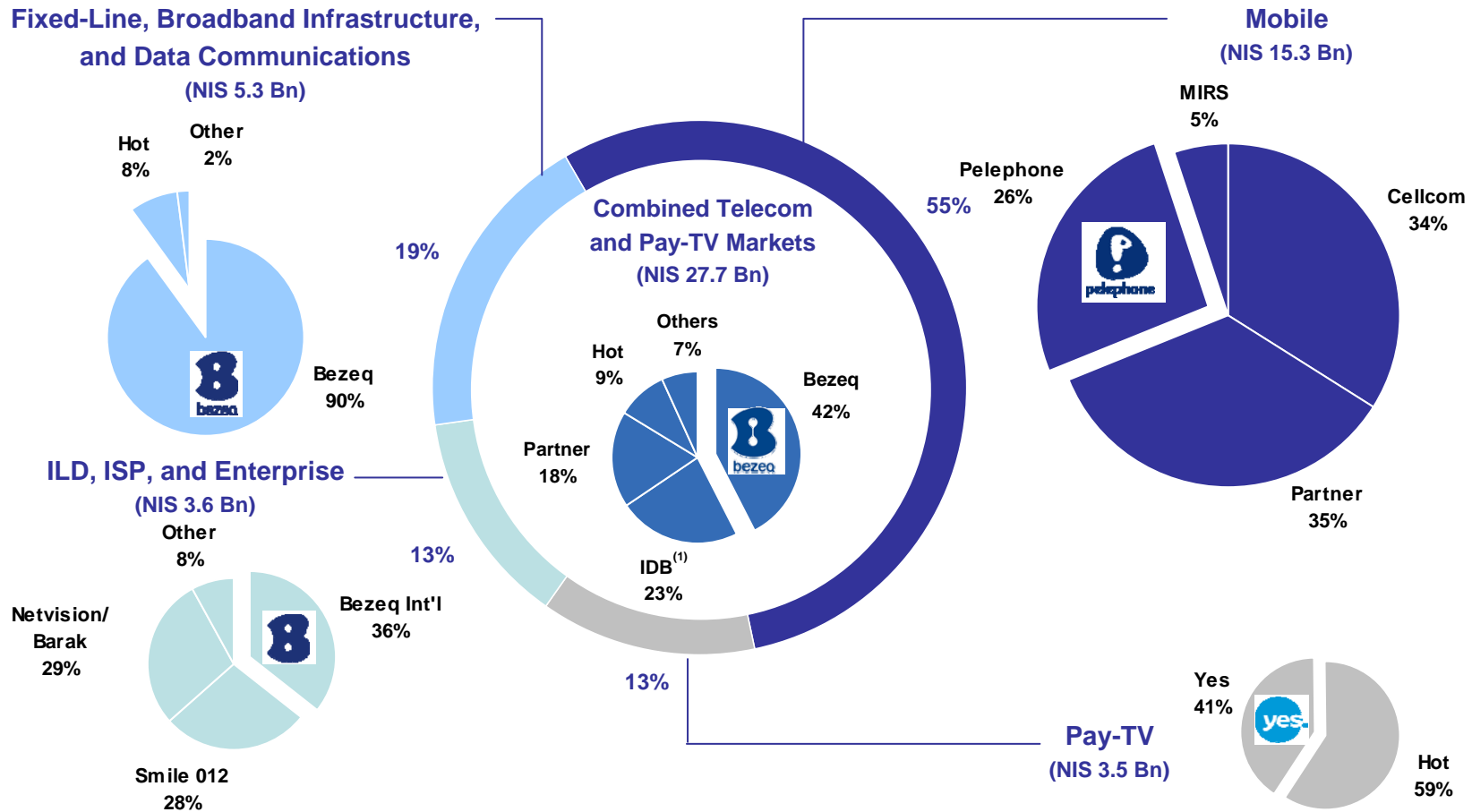
- **Adapt business to respond to technological changes and convergence of telecommunications and media**
 - Residential customers: fully integrate their home communications and entertainment services
 - Business customers: provide infrastructure and applications that are business-critical
 - Sharing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

The MoC recently announced that it will adopt most of the Gronau Committee's recommendations

Catalyst for change – MoC decisions

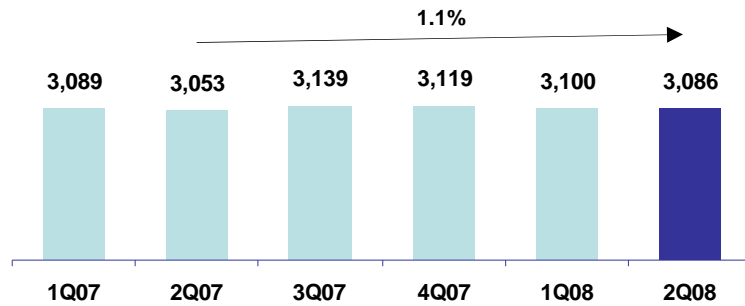
- ⌚ The MoC opened the possibility of incentives for Bezeq to deploy an NGN network
- ⌚ Implementation of wholesale services including the lease of Bezeq's fixed-line infrastructure (Local Loop Unbundling)
- ⌚ Bezeq subsidiaries (Bezeq Int'l and yes) will be allowed to offer bundled services (triple-play) at a discount once
 - (i) a competitor offers wholesale services, including LLU, or
 - (ii) six months have passed since the date the wholesale offering is published
- ⌚ MoC will publish MVNO licenses in the near future
- ⌚ New committee to be 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
 - ⌚ Right to sell advertising on the air may be granted to multi-channel broadcasters
- ⌚ ILD licenses will not be awarded to mobile operators before MVNO or WiMAX-based carriers compete with them on mobile services



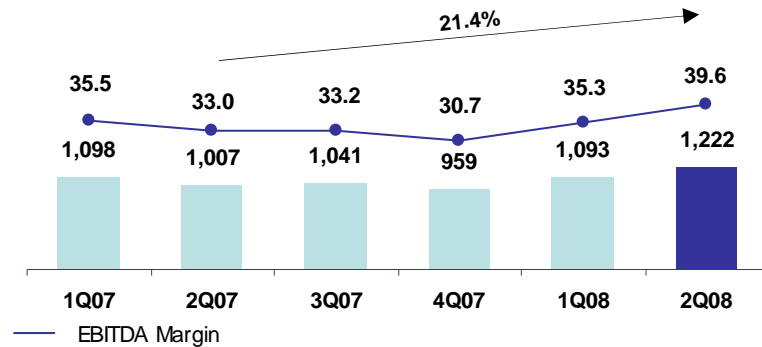
Bezeq Group Financial Performance

Stable revenues and improved profitability

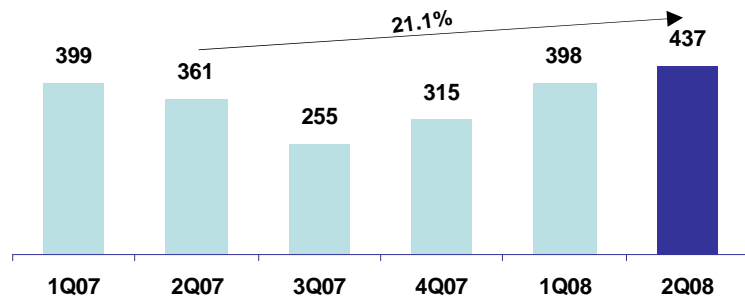
Group Revenue
NIS MM



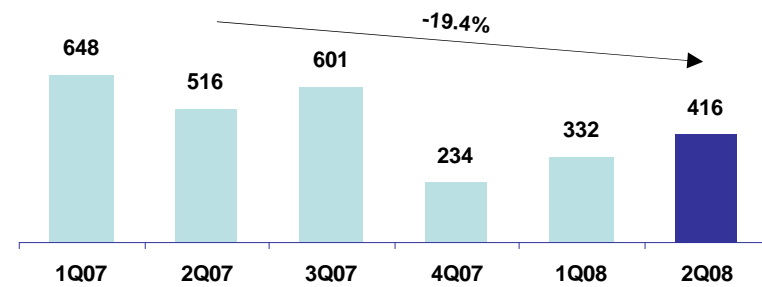
Group EBITDA
NIS MM



Group Net Income
NIS MM



Group Free Cash Flow (1)
NIS MM



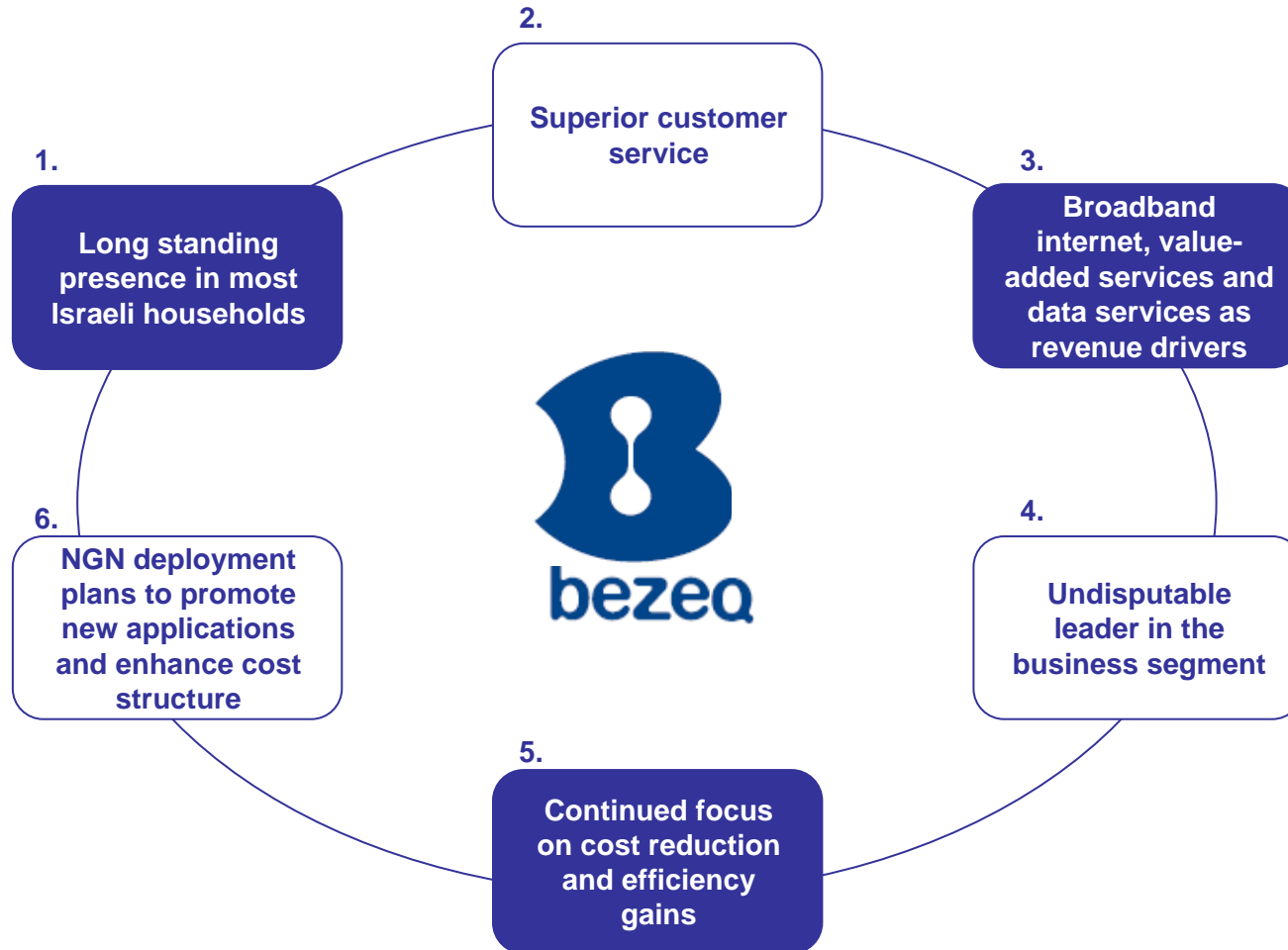
1. Free cash flow defined as Cash Flow from Operations – Net Capex



Bezeq Fixed-Line

Fixed-Line Overview

The leading fixed-line services operator in Israel



Fixed-Line 2Q08 Key Achievements

- ! **Continued efforts on cost reduction and operational efficiency yields impressive 2Q08 EBITDA margin of 47.2% – the highest since the company’s privatisation**
 - ! 8% decline in wages and almost 16% decline in general and operating expenses year-over-year
- ! **Modest and anticipated decline in fixed-line telephony revenues offset by growth in internet and data communications revenues**
 - ! Continued revenue growth in Internet broadband services, driven by bandwidth upgrades and successful commercial initiatives aimed at both existing and new subscribers
 - ! Pace of net decline in telephony access lines has slowed down to 31,000 in 2Q08 from 48,000 in 1Q08
 - ! Development of new and existing business initiatives such as Data Centre, IP Centrex and 144 online directory offering – increasingly addressing our residential and business customers’ needs
- ! **Focus on NGN deployment, as we launch two full coverage operational pilots to validate the planned network**



NGN Migration

Contemplated transition to NGN to address demand for advanced services and reduce opex

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
- ⋮ Disposal of real estate and copper to reduce net cash outlay
- ⋮ Modular deployment
 - ⋮ We will evaluate the completion 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 such as real estate
- ⋮ 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

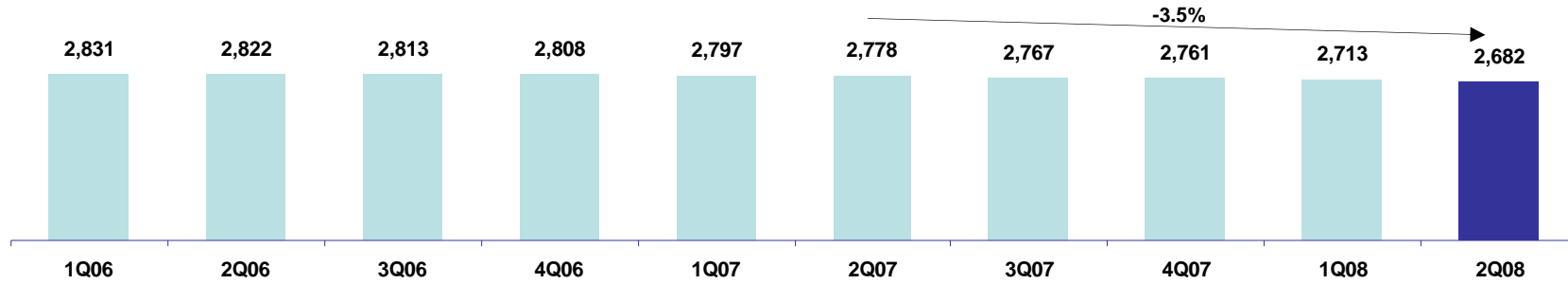


Domestic Telephony KPIs

Slight decrease in number of lines and ARPL⁽¹⁾

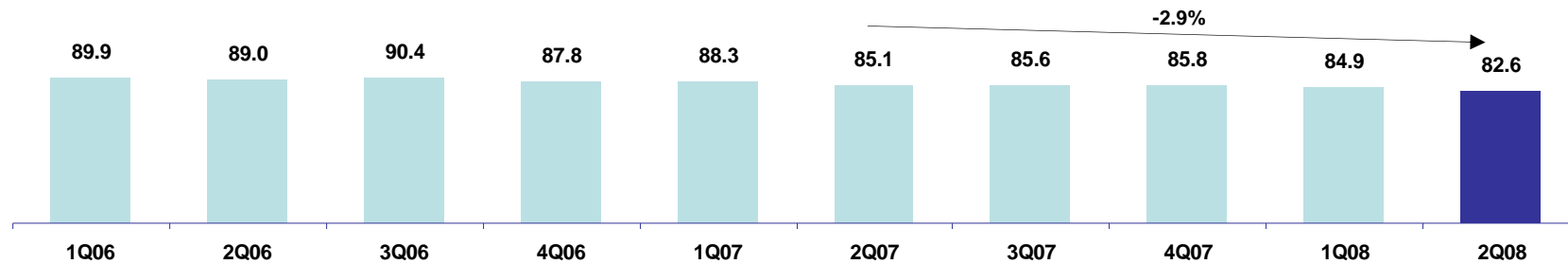
Access Lines

'000



ARPL⁽¹⁾

NIS/Month



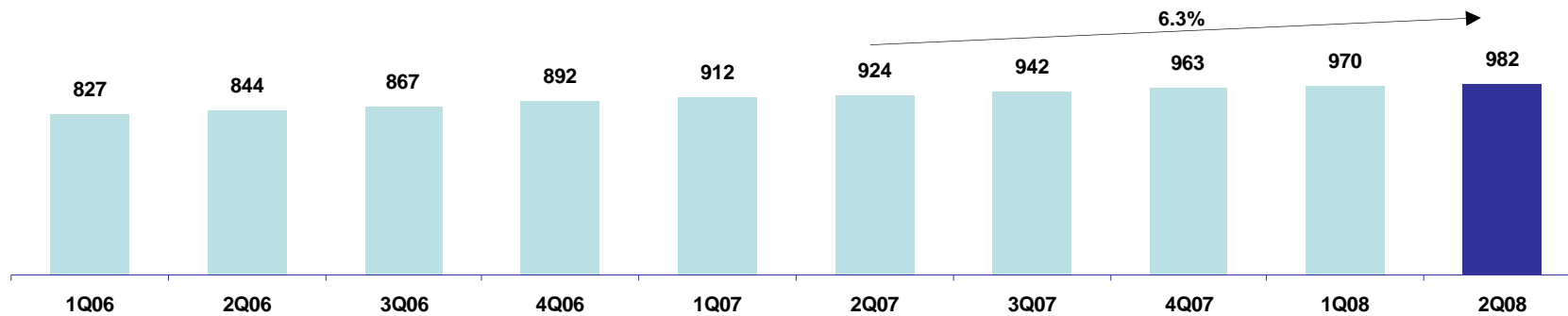
1. Average revenue per line, including calls and excluding cellular interconnect revenues

Broadband KPIs

Continued growth in number of subscribers combined with a sustainable ARPU

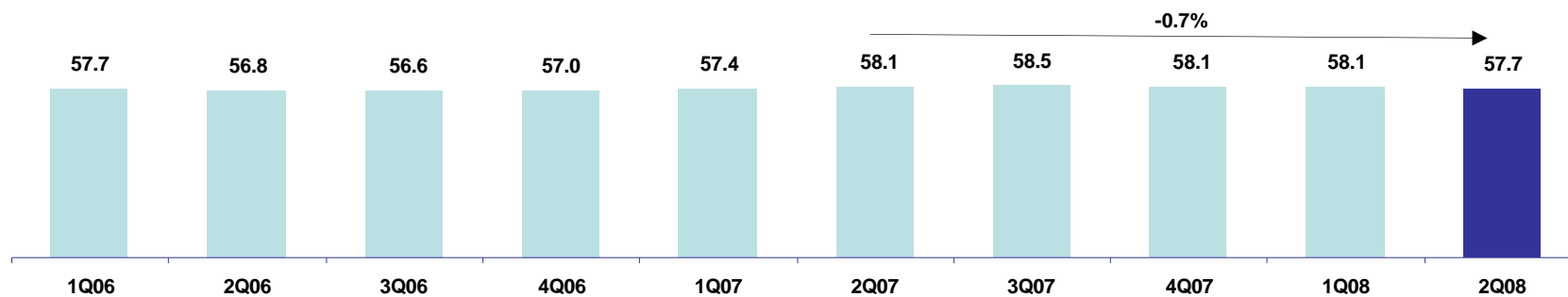
Broadband Subscribers

'000



ARPU

NIS/Month

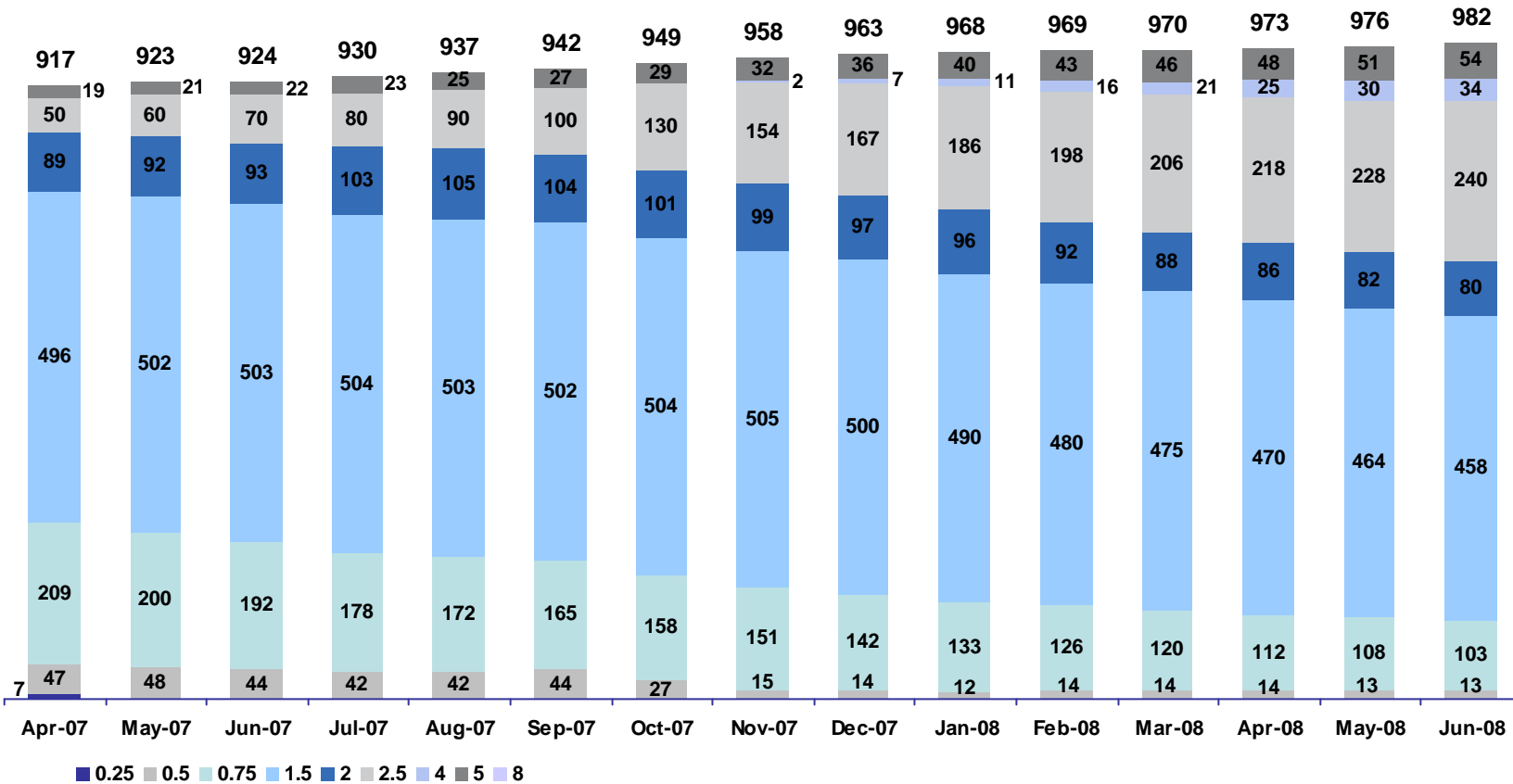


Broadband KPIs

Bandwidth upgrade momentum supporting ARPU resilience

Broadband Subscribers Split by Bandwidth

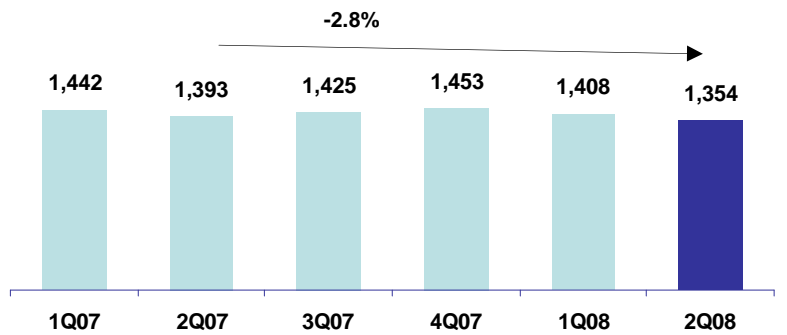
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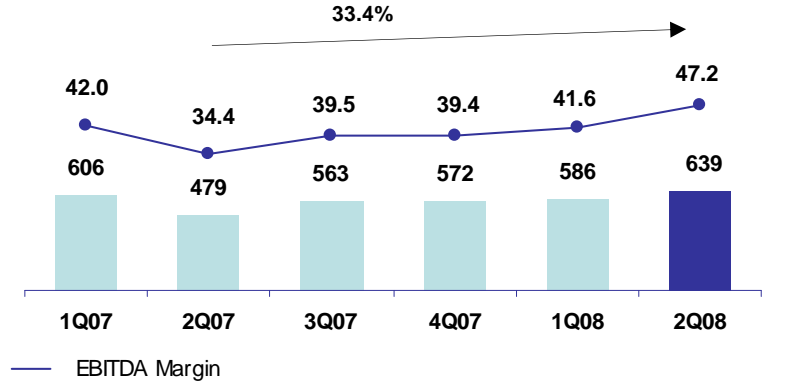
Fixed-Line Financial Performance

Record-high quarterly EBITDA despite the slight decline in revenues

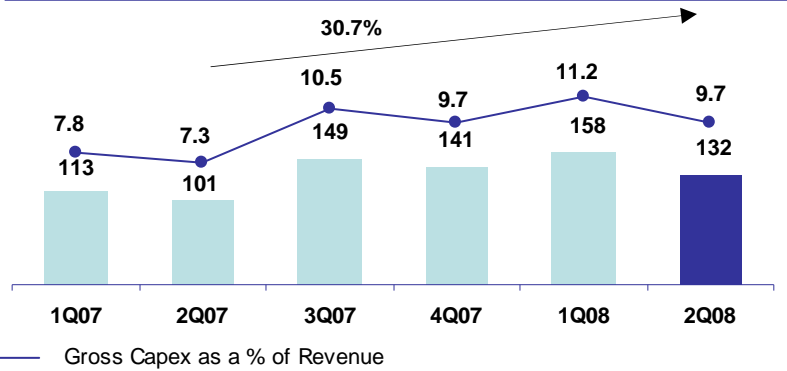
Fixed-Line Revenue
NIS MM



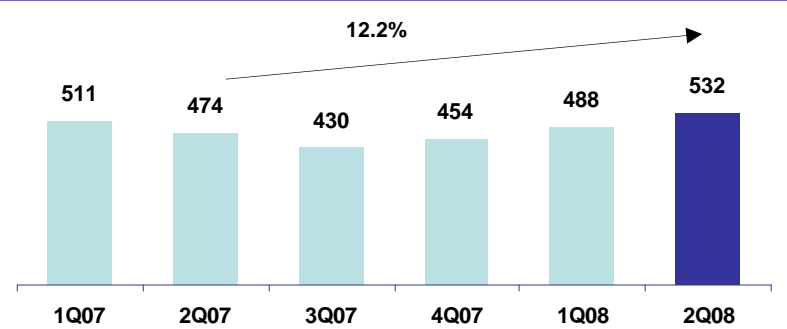
Fixed-Line EBITDA
NIS MM



Fixed-Line Gross Capex
NIS MM



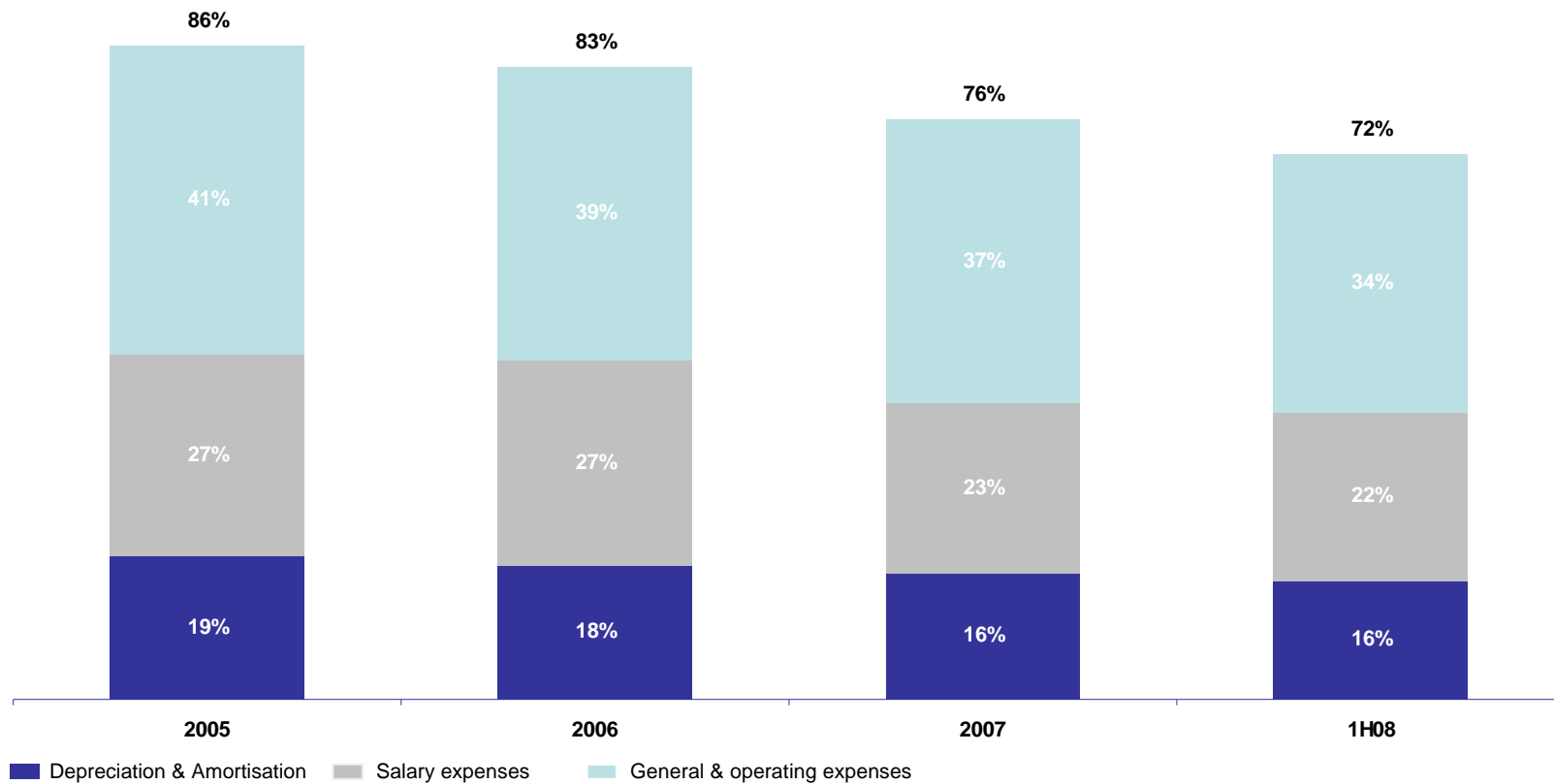
Fixed-Line EBITDA – Net Capex
NIS MM



Cost Structure Development

Reduction of the cost base underpins significant profitability improvement

Cost Structure
% of revenues



Source Bezeq



Bezeq International Overview

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



Bezeq International 2Q08 Key Achievements

- **Leading market share in Internet services and direct-dial international calls**
- **Higher revenue in core business areas such as ISP, outgoing calls and enterprise solutions**
 - Doubling of revenues from enterprise integration solutions further demonstrate Bezeq International's unique market position among its competitors
 - Growth in revenues expected from increase in bandwidth and from value-added services
- **Continued decline in hubbing traffic between foreign operators using Bezeq International switches**
 - This global trend, which affects also Bezeq International's competitors, is expected to continue
- **Focus on cost control delivering significant improvements in profitability**
- **Bezeq International continues to lead in quality of service and market perceptions**

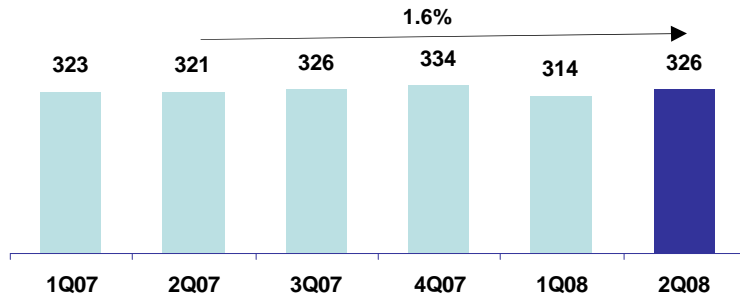


Bezeq International Financial Performance

Margin improvement combined with sustainable top-line growth

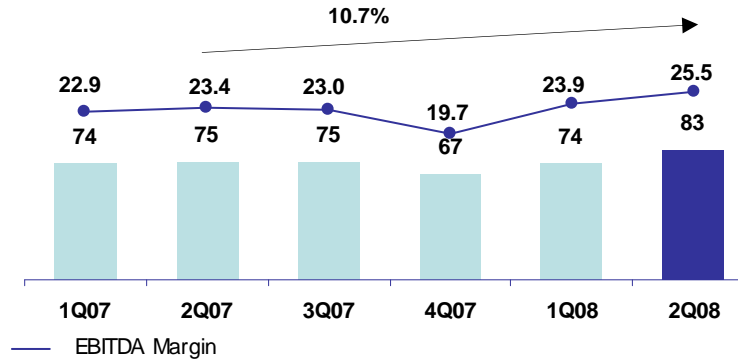
Bezeq International Revenue

NIS MM



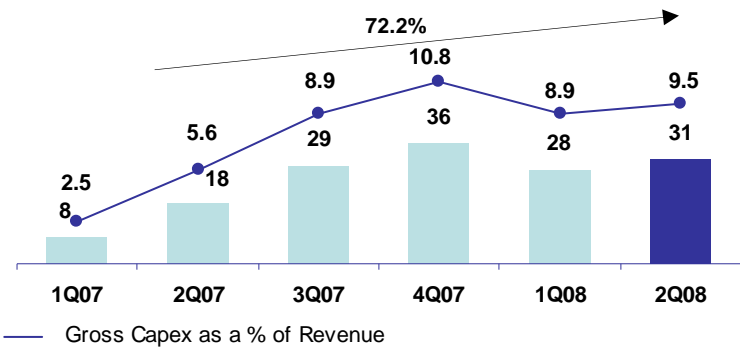
Bezeq International EBITDA

NIS MM



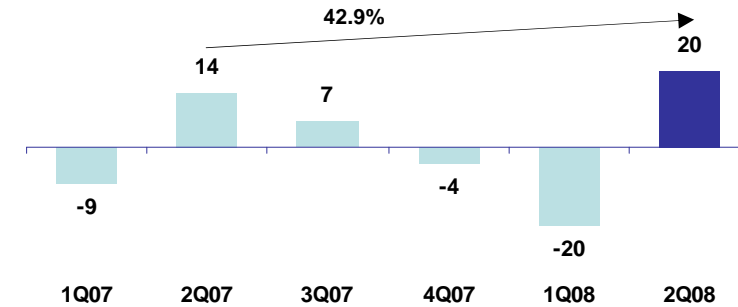
Bezeq International Gross Capex

NIS MM



Bezeq International Free Cash Flow ⁽¹⁾

NIS MM



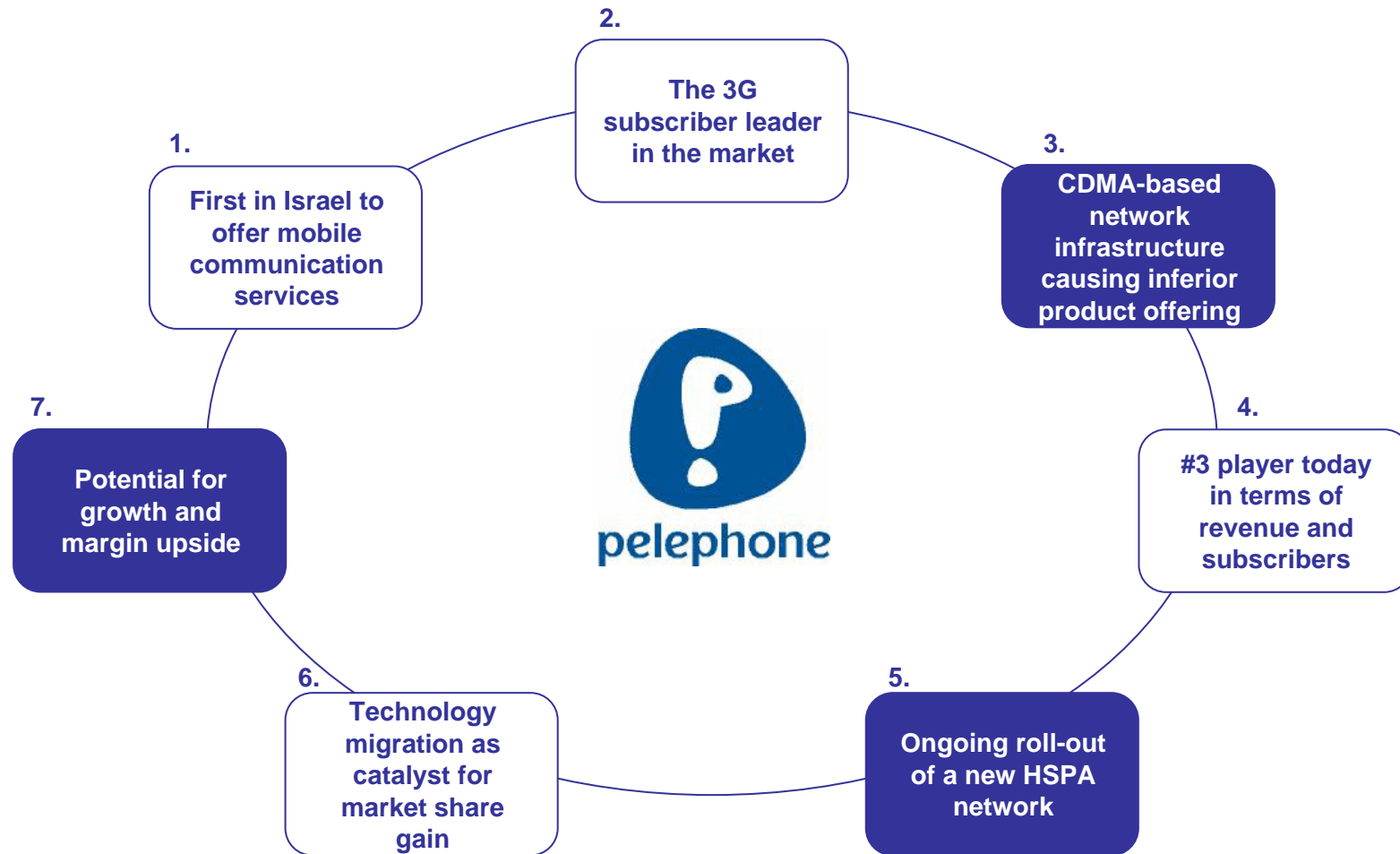
1. Free cash flow defined as Cash Flow from Operations – Net Capex



pelephone

Pelephone Overview

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



Pelephone 2Q08 Key Achievements

- ‡ **Double-digit improvements in operating profit and EBITDA**
 - ‡ EBITDA at almost NIS 400 MM and EBITDA margin at 33.3% are Pelephone's highest in several years
- ‡ **Reinforced leadership position in 3G services, with 3G subscribers representing 37% of Pelephone's subscriber base on June 30th 2008**
 - ‡ 15.5% of mobile service revenues coming from content, data and VAS, making Pelephone a leader in the field
- ‡ **41,000 net subscriber additions in 2Q08 – the highest in the Israeli cellular market**
- ‡ **Continued roll-out of the HSPA network**
 - ‡ Expect network to be operational by the beginning of 2009

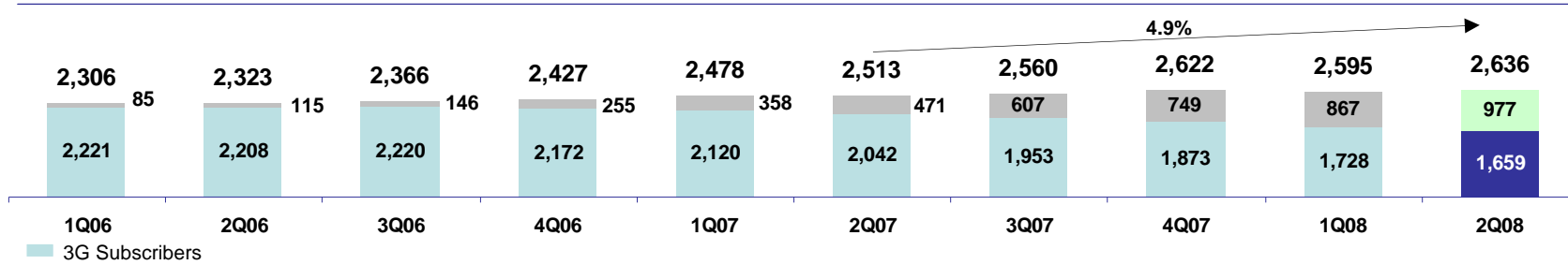


Telephone KPIs

4.9% YoY increase in subscribers driven by 3G additions, ARPU stabilisation after tariff decline in 1Q08

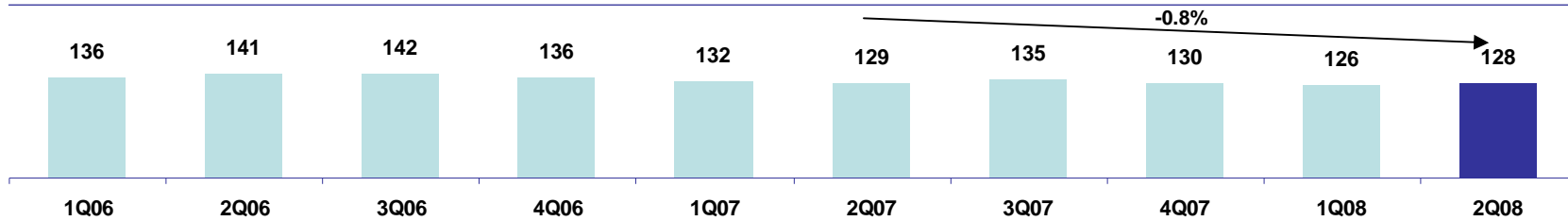
Subscribers

'000



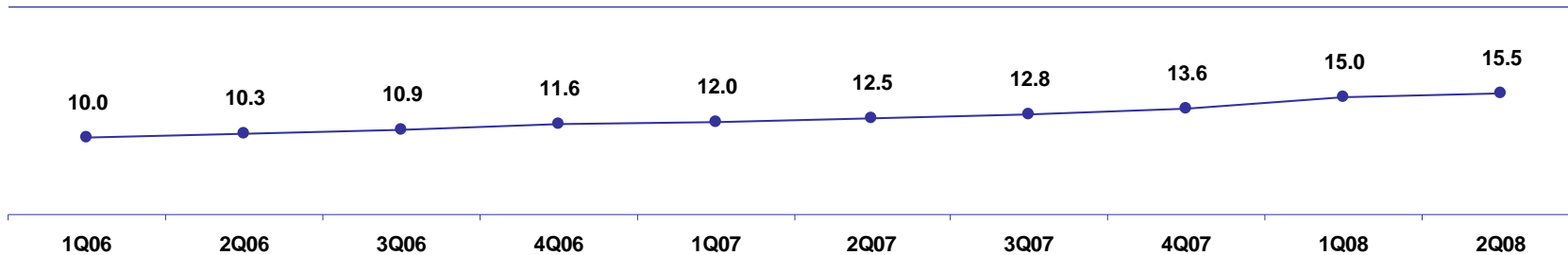
ARPU

NIS/Month



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

%



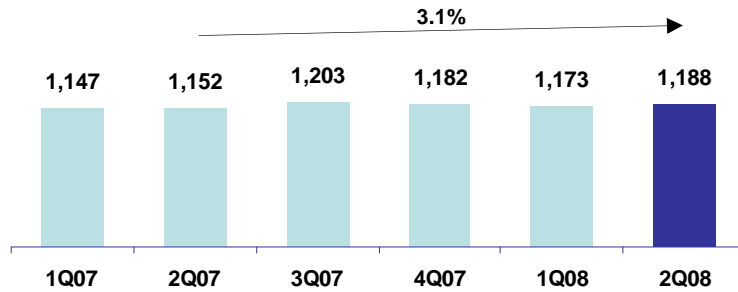
1. Includes telephony and data services but excludes sale of equipments



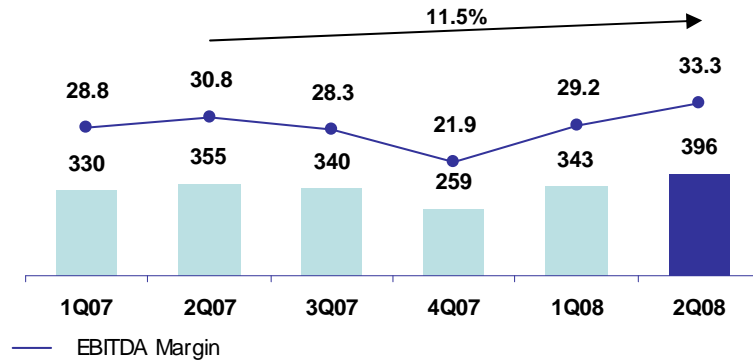
Pelephone Financial Performance

Record quarterly EBITDA, 32% increase in Free cash flow despite Capex increase due to HSPA investments

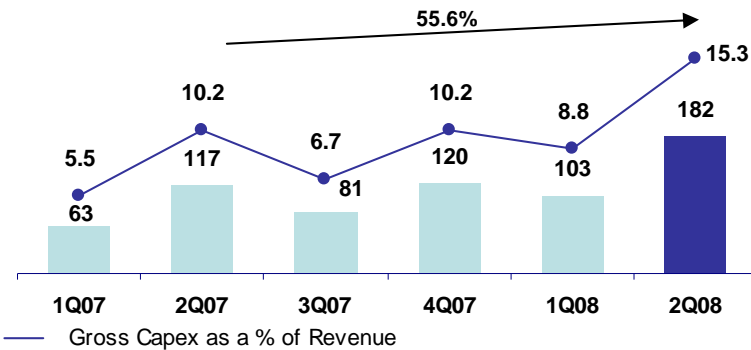
Pelephone Revenue
NIS MM



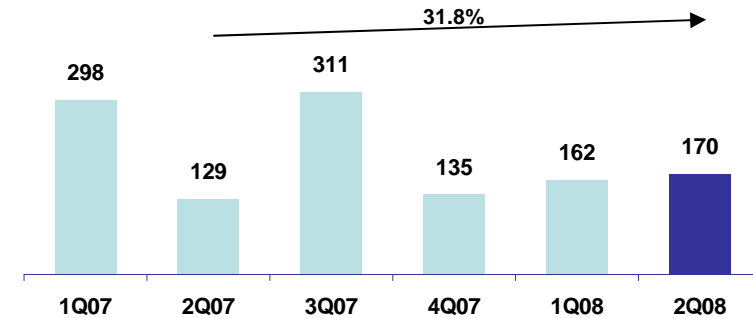
Pelephone EBITDA
NIS MM



Pelephone Gross Capex
NIS MM



Pelephone Free Cash Flow (1)
NIS MM

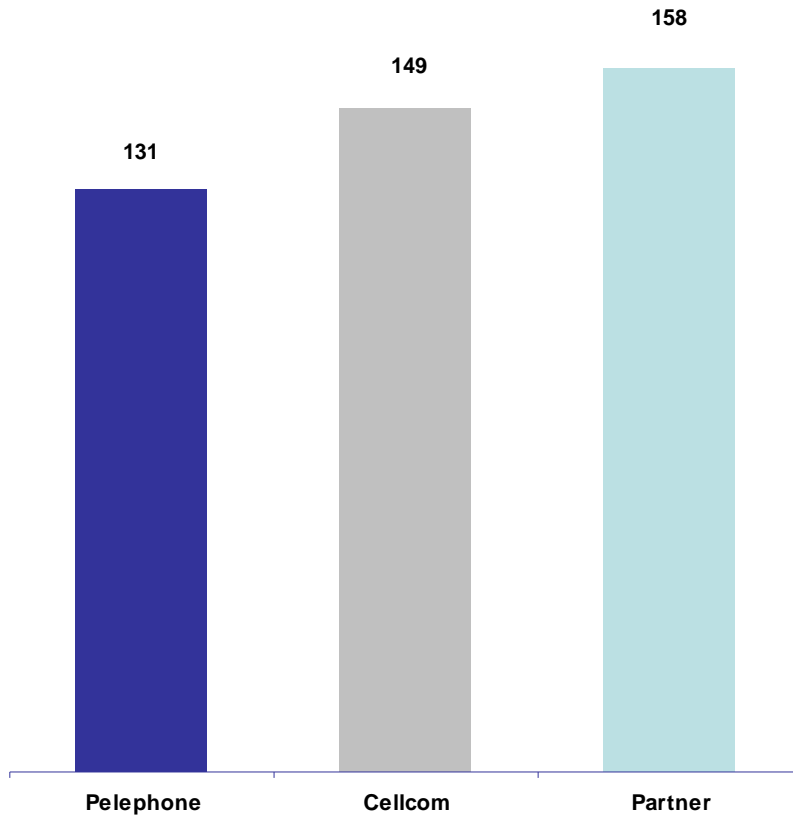


1. Free cash flow defined as Cash Flow from Operations – Net Capex

Further Upside Potential

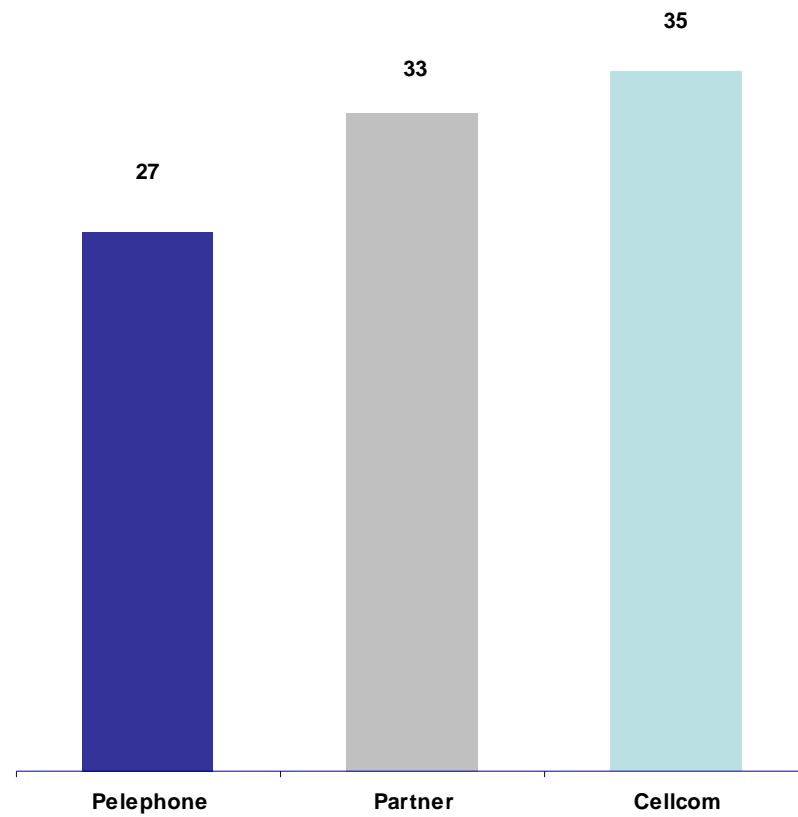
Network migration will act as a catalyst for Pelephone to increase revenue and profitability

ARPU
2007, Monthly, NIS



Source: Company filings

EBITDA Margin
2007, %



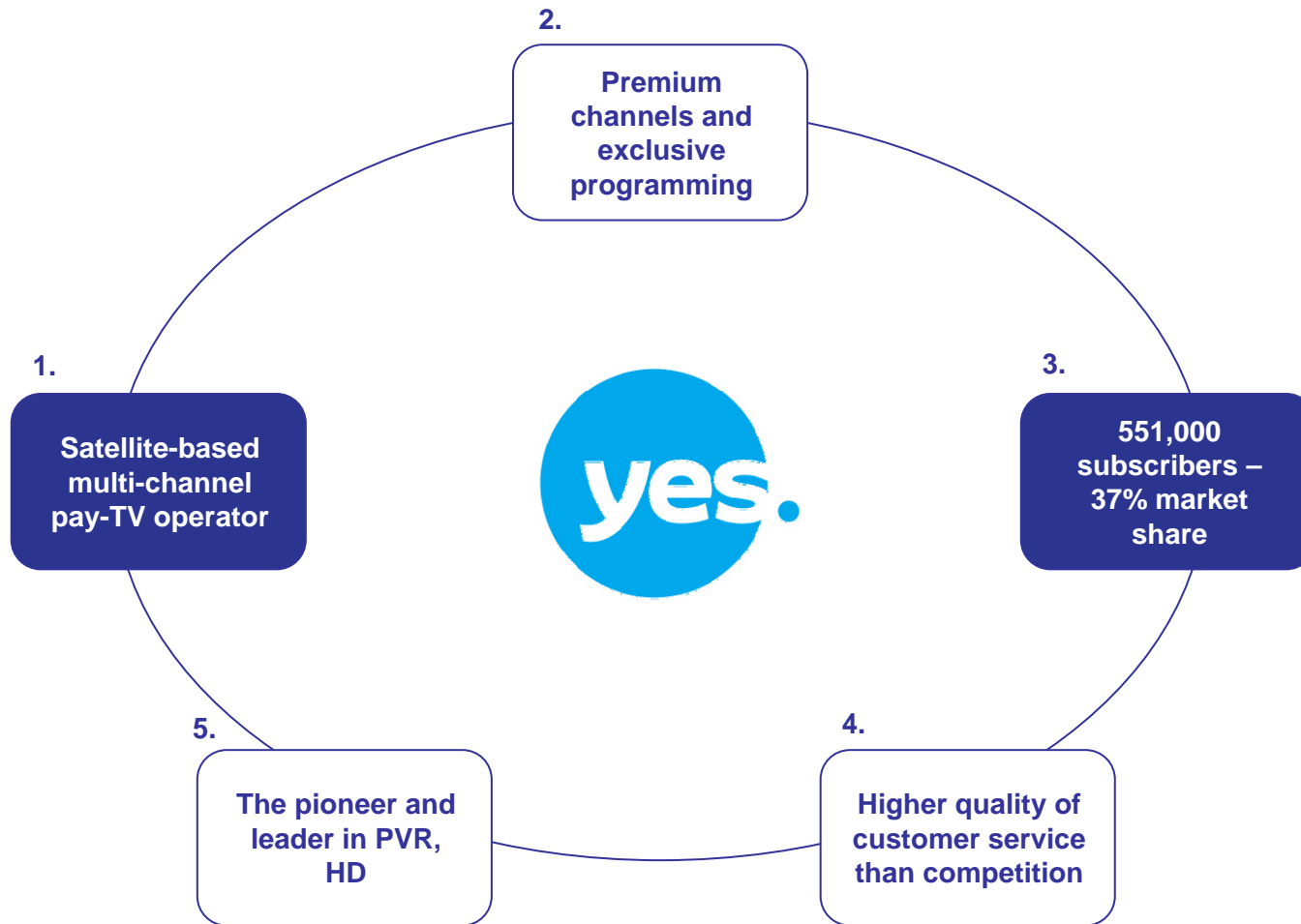
Source: Company filings





yes Overview

The premium pay-TV operator in Israel



yes 2Q08 Key Achievements

- ‡ **Solid revenue growth driven by 5.5% ARPU increase and 1.5% subscriber growth year-over-year**
 - ‡ Success of yesMax PVR offering driving ARPU increase
 - ‡ ARPU also benefited, still, from the end of complimentary premium subscriptions granted in connection with the service disruptions of the Fall 2007
- ‡ **Highest quarterly EBITDA ever – NIS 103 MM**
 - ‡ EBITDA margin (27.1%) declined slightly from prior year period (28.2%) but increased sequentially from 1Q08 (24.1%)
- ‡ **Continued focus on providing premium film and TV series content**
- ‡ **yes manages to sustain its market share (37%) despite its inability to offer triple-play**

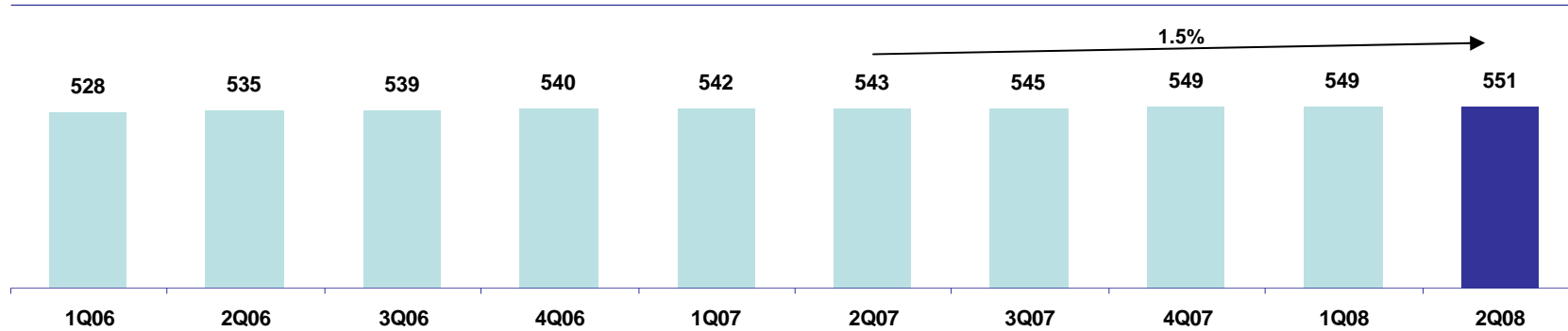


yes KPIs

Stable subscriber base, strong ARPU growth YoY driven by VAS

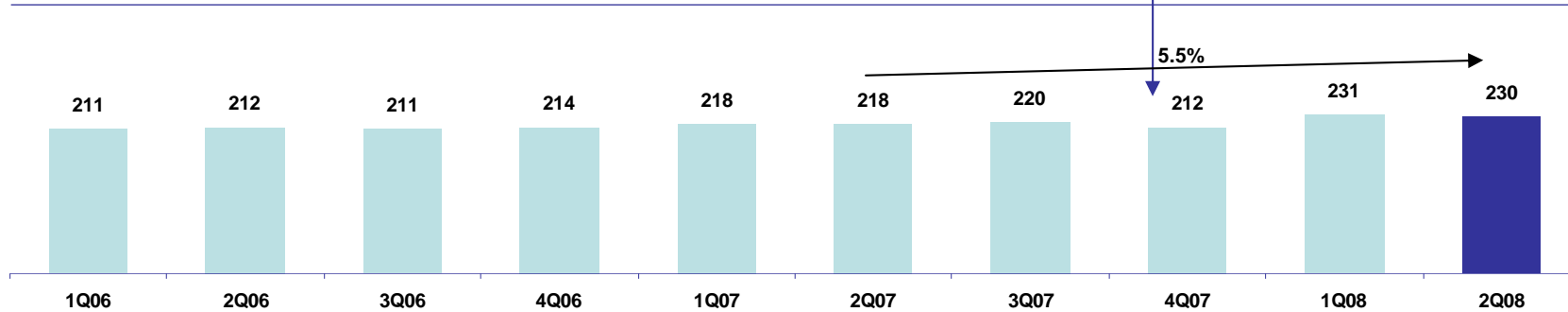
Subscribers

'000



ARPU

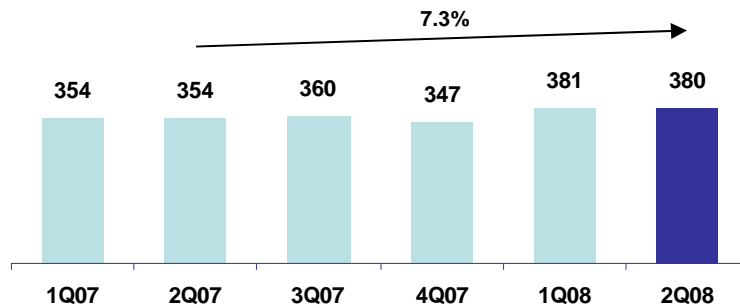
NIS/Month



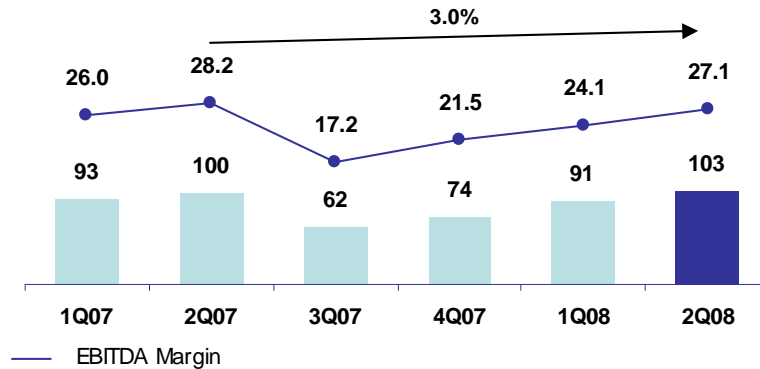
yes Financial Performance

Strong revenue growth YoY and ongoing EBITDA recovery from the impact of the service disruptions in 3Q07

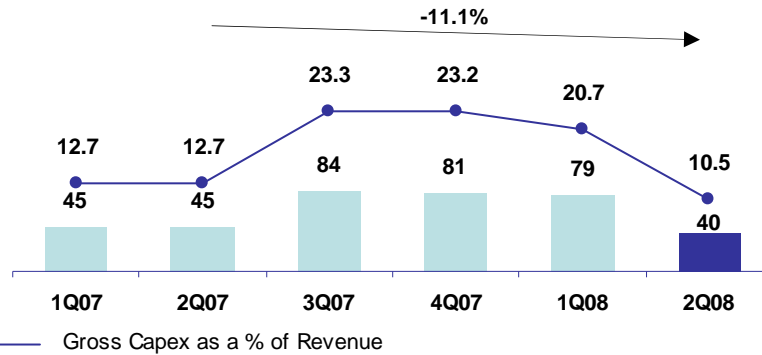
yes Revenue
NIS MM



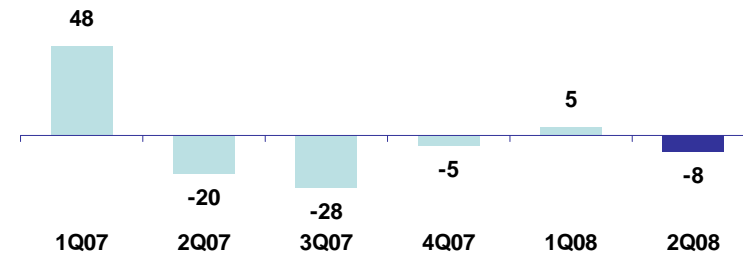
yes EBITDA
NIS MM



yes Gross Capex
NIS MM



yes Free Cash Flow ⁽¹⁾
NIS MM



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



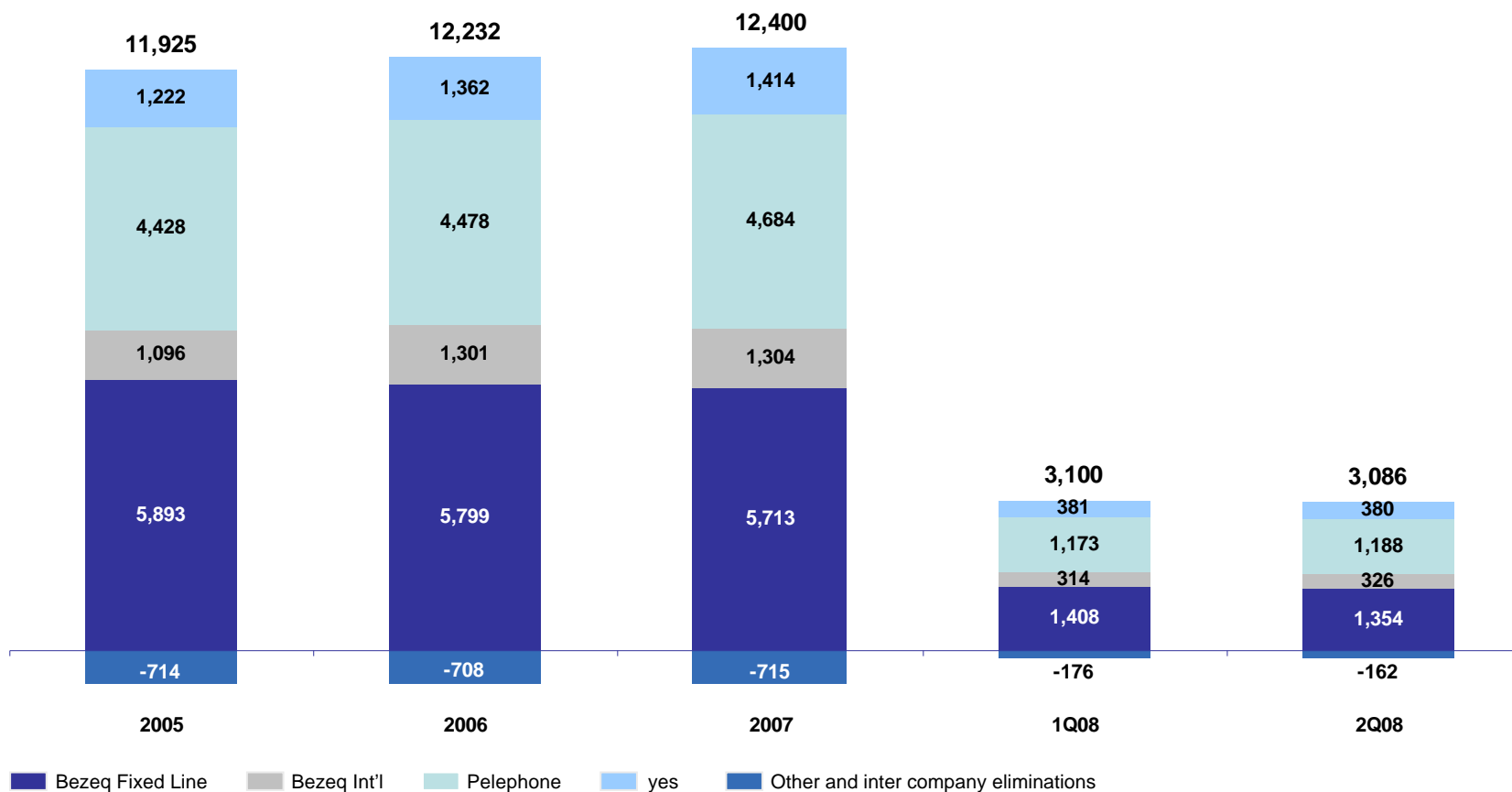
Group Financial Review

Revenue Development

Revenue at the subsidiaries net of intercompany eliminations

Group Revenue
NIS MM

'05-07 CAGR: +2.0%

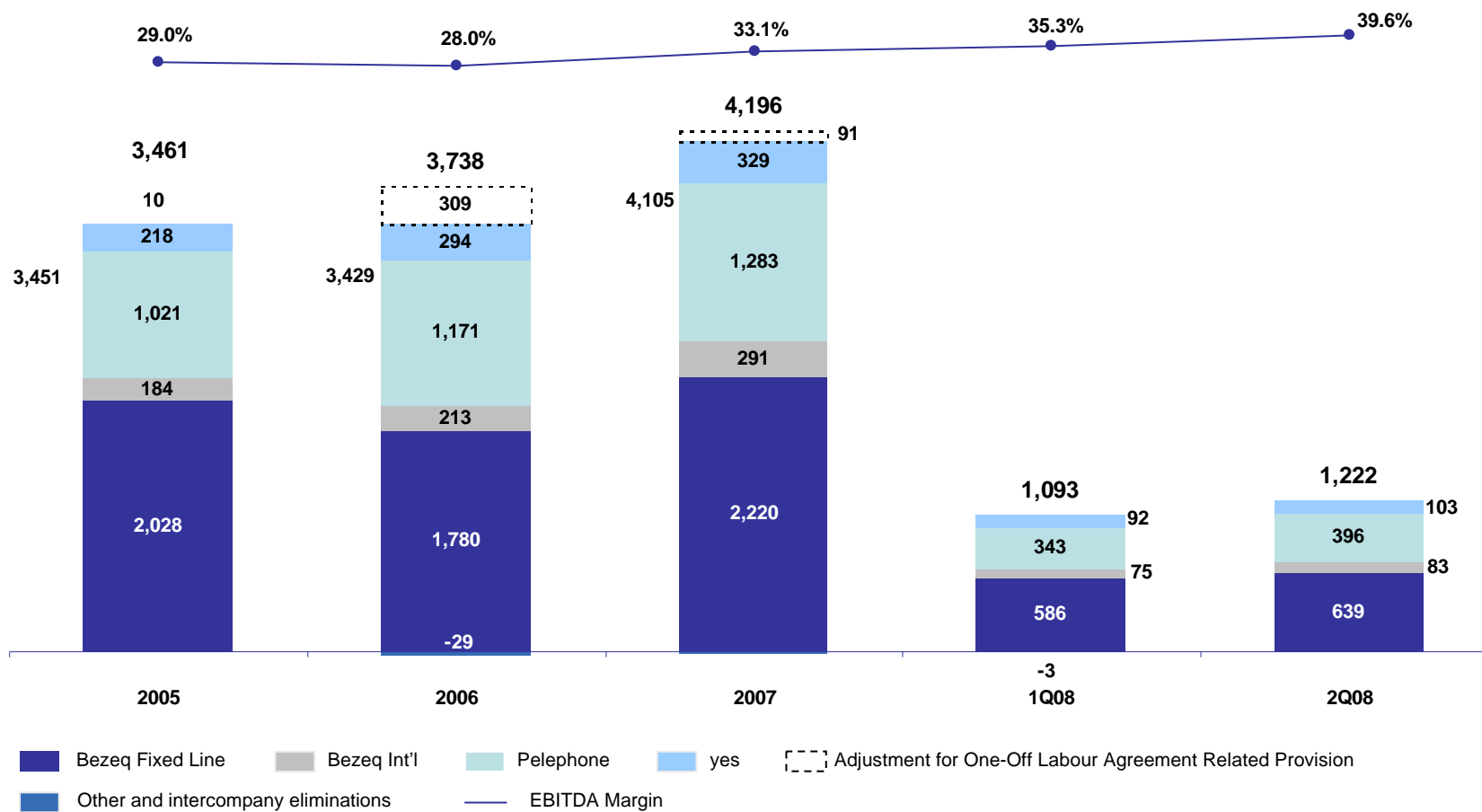


EBITDA Development

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

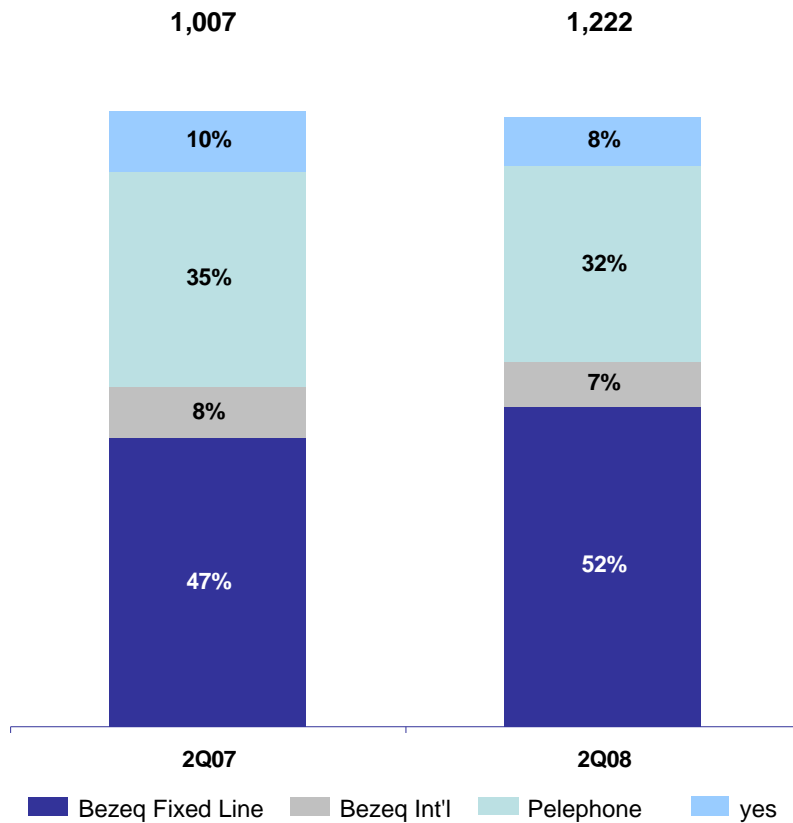
Group EBITDA
NIS MM

'05-07 CAGR: +10.1%



EBITDA Mix and EBITDA Margins

Subsidiaries' Contribution to Consolidated EBITDA
NIS MM



EBITDA Margin per Division

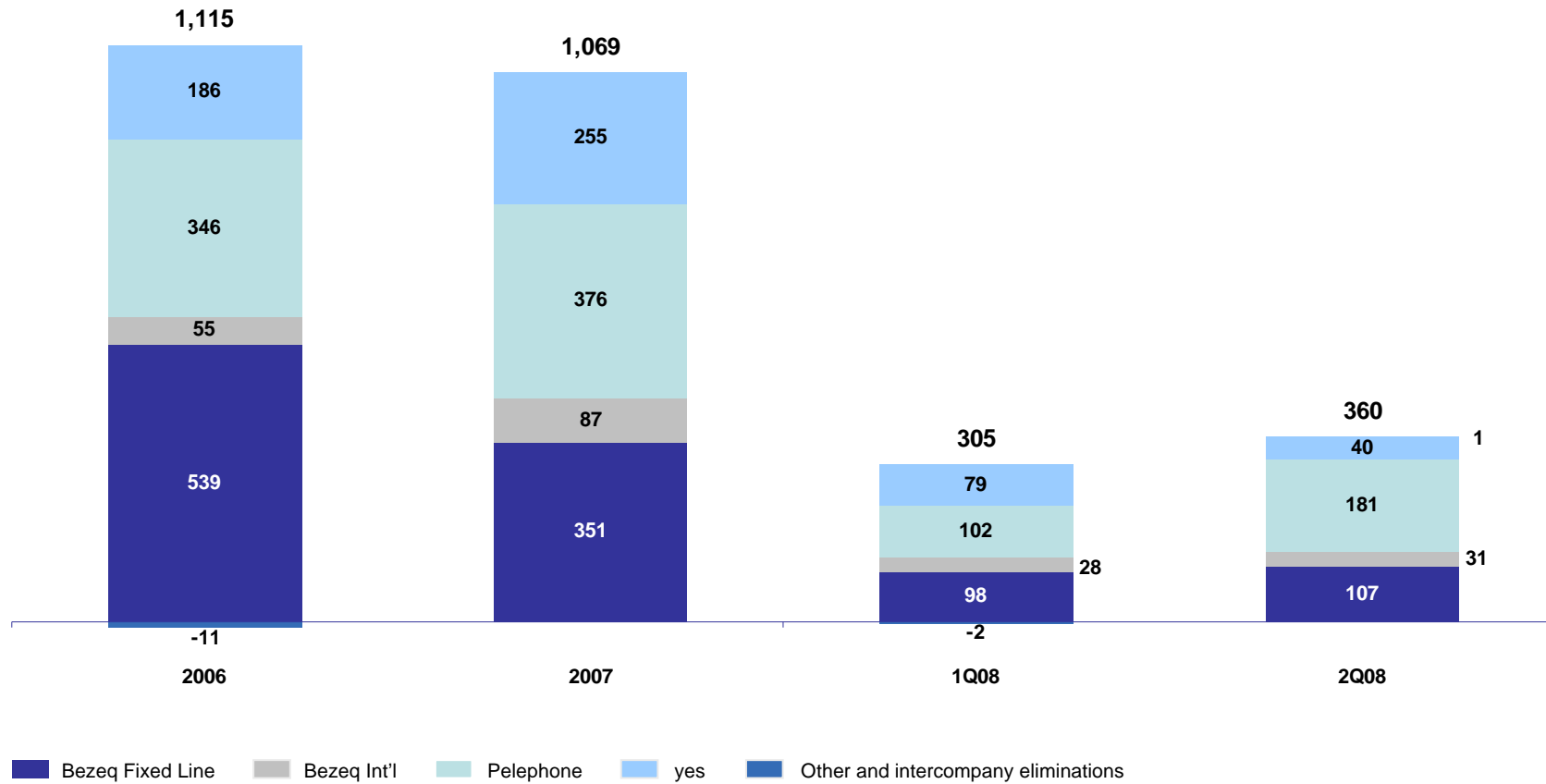
	2Q07	2Q08	Change (p.p.)
Bezeq Fixed Line	34.4%	47.2%	+ 12.8 p.p.
Bezeq International	23.6%	25.5%	+ 1.9 p.p.
Pelephone	30.8%	33.3%	+ 2.5 p.p.
yes	28.2%	27.1%	- 1.1 p.p.
Bezeq Group	33.0%	39.6%	+ 6.6 p.p.



Capex Development

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

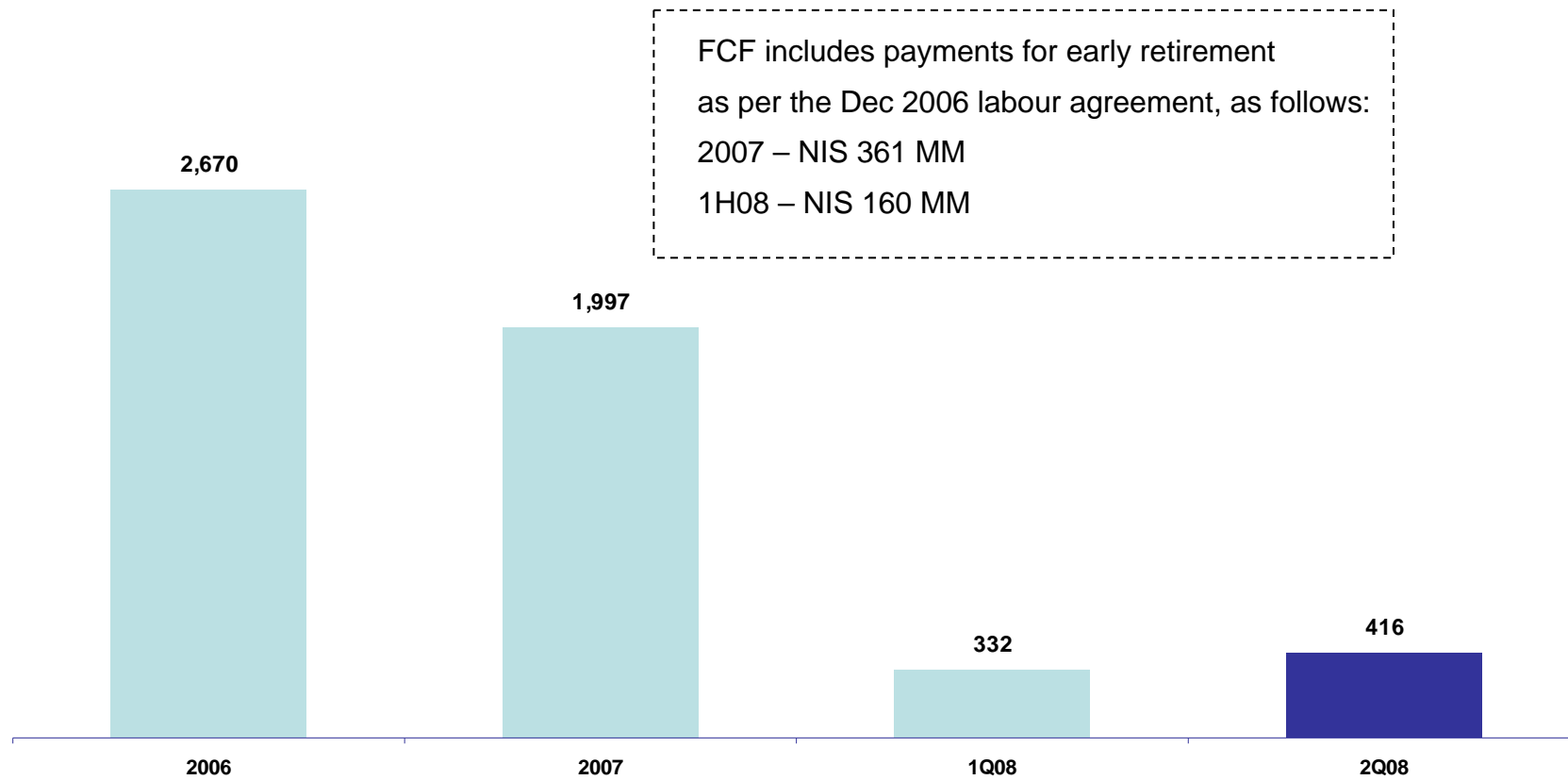
Group Net Capex Development
NIS MM



Free Cash Flow Development

Strong and steady cash flow generation

Group Free Cash Flow
NIS MM



Consolidated P&L

(NIS MM, IFRS)	2Q07	2Q08	Change	1H07	1H08	Change
Revenues	3,053	3,086	1.1%	6,141	6186	0.7%
Cost and Expenses						
Depreciation and Amortisation	436	422	-3.2%	877	851	-3.0%
Salary	584	585	0.2%	1,160	1,201	3.5%
Operating and General Expenses	1,410	1,313	-6.9%	2,833	2,683	-5.3%
Other Operating Expenses/(Income), Net	52	(34)	–	44	(13)	–
Operating Profit	571	800	40.1%	1,227	1,464	19.3%
<i>% Margin</i>	18.7%	25.9%	–	20.0%	23.7%	–
EBITDA	1,007	1,222	21.6%	2,104	2,315	10.0%
<i>% Margin</i>	33.0%	39.6%	–	34.3%	37.4%	–
Net Income attributed to Bezeq shareholders	361	437	21.1%	760	835	8.7%
<i>% Margin</i>	11.1%	14.2%	–	12.4%	13.5%	–
Minority Interest	(21)	(24)	–	(35)	(37)	–
Profit for the period	340	413	21.5%	725	798	8.8%



Consolidated Cash Flow Statement

(NIS MM, IFRS)	2Q07	2Q08	Change	1H07	1H08	Change
Net Income	340	413	21.5%	725	798	10.0%
Adjustments:						
Depreciation and Amortisation	436	422	-3.2%	877	851	-3.0%
Change in Working Capital	(343)	(289)	-15.7%	(455)	(656)	44.2%
Other Adjustments	264	230	—	415	420	—
Cash Flow from Operations	697	776	11.3%	1,562	1,413	-9.5%
Purchase of Property, Plant and Equipment	(235)	(310)	31.9%	(413)	(617)	49.4%
Investment in Intangible Assets and in Other Expenses	(43)	(76)	76.7%	(105)	(135)	28.6%
Proceeds from Sale of Property	97	26	-73.2%	121	87	-28.1%
Other Investments, Net	(82)	258	—	40	320	—
Cash Flow from Investment Activities	(263)	(102)	-61.2%	(357)	(345)	-3.4%
Repayment of Debentures/Loans	(95)	(439)	362.1%	(246)	(708)	187.8%
Receipt of Debentures/Loans	807	—	—	807	—	—
Dividends Paid	—	(679)	—	(2,100)	(679)	-67.7%
Interest Paid	(123)	(179)	45.5%	(198)	(235)	18.7%
Other	9	85	—	(37)	101	—
Cash Flow from Financing Activities	596	(1,212)	-303.4%	(1,774)	(1,521)	-14.3%
Net Increase in Cash and Cash Equivalents	1,030	(538)	152.2%	(569)	(453)	-20.4%
Cash and Cash Equivalents, BoP	1,033	1,283	24.2%	2,632	1,203	-54.3%
Exchange Rate Fluctuations	—	(5)	—	—	(10)	—
Cash and Cash Equivalents, EoP	2,063	740	-64.1%	2,063	740	-64.1%



Consolidated Balance Sheet

(NIS MM, IFRS)	As of 30-Jun-07	As of 30-Jun-08	Change
Assets			
Cash and Cash Equivalents	2,063	740	-64.1%
Other Current Assets	3,801	3,299	–
Total Current Assets	5,864	4,039	-31.1%
Property, Plant and Equipment	6,211	5,971	-3.9%
Intangible Assets	2,541	2,668	5.0%
Other Non-Current Assets	1,926	1,829	–
Total Non-Current Assets	10,714	10,468	-2.3%
Total Assets	16,578	14,507	-12.5%
Liabilities			
Loans and Credit	4,187	1,094	-73.9%
Other Current Liabilities	3,388	3,093	–
Total Current Liabilities	7,575	4,187	-44.7%
Debentures	3,350	3,941	17.6%
Obligations to Banks	392	1,102	181.1%
Other Non-Current Liabilities	1,136	962	–
Total Non-Current Liabilities	4,878	6,005	23.1%
Total Liabilities	12,453	10,192	-18.2%
Total Shareholders' Equity	4,125	4,315	4.6%
Total Shareholder's Equity and Liabilities	16,578	14,507	-12.5%

1. Net debt excludes loans provided by the minority in a subsidiary and includes investment and loans, including derivatives





Thank You.

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