



## 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.

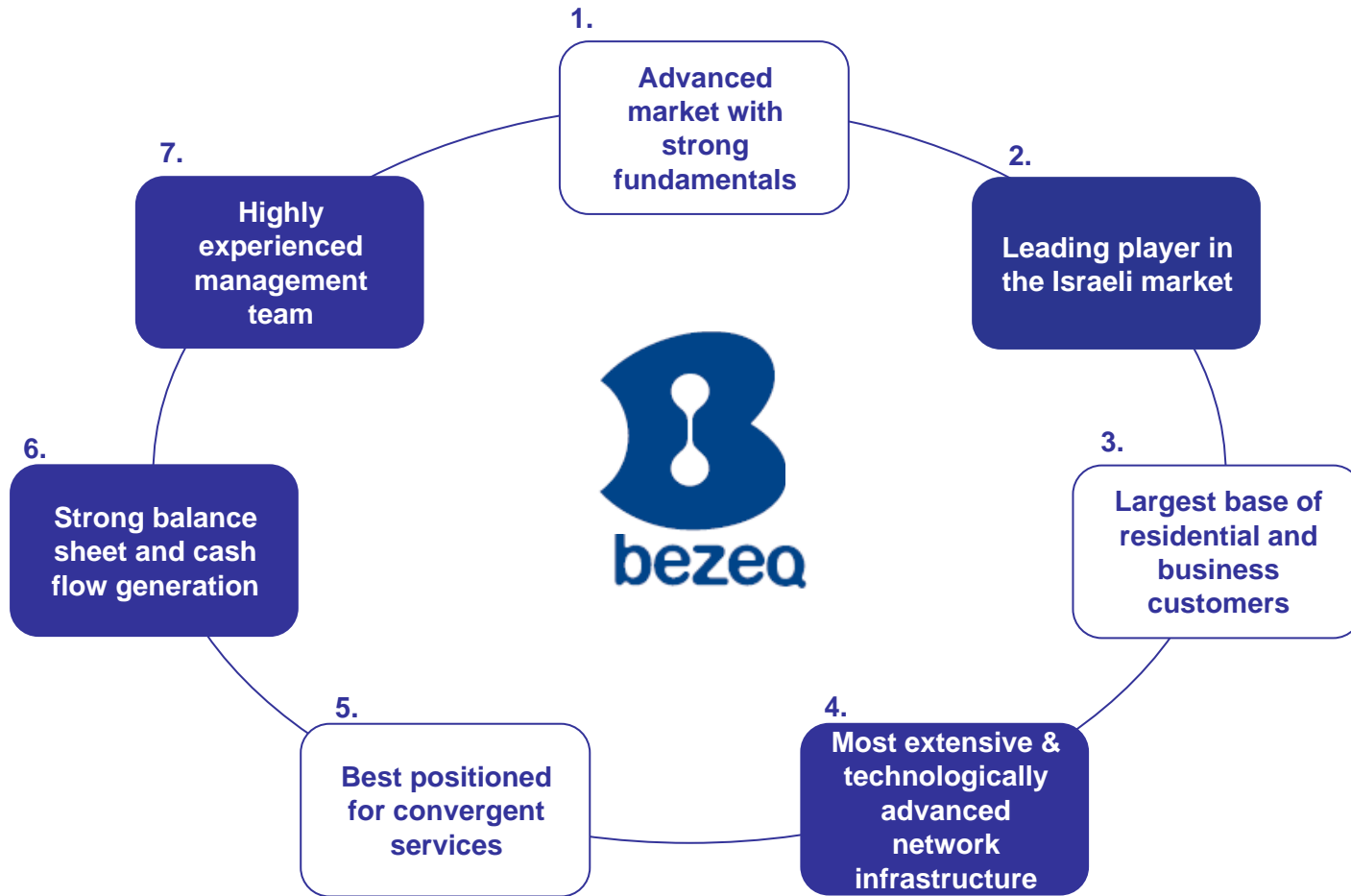




# Bezeq Group Overview

# Overview

The most comprehensive communications platform in Israel



## 3Q09 Highlights

- **Significant increase in net profit to shareholders to NIS 2.09 billion following the deconsolidation of yes**
  - Net profit to shareholders from continuing operations increased 15.1% year-on-year to NIS 586 MM
  - Shift in accounting treatment of yes investment to equity method results in one-time gain of NIS 1.5 billion
  
- **Continued group revenue growth combined with focus on cost control**
  - 4.2% YoY revenue growth driven mainly by Pelephone's double-digit revenue increase
  - Solid YoY improvements in operating profit (+12.9%) and EBITDA (+8.4%); EBITDA margin reaches 42.3%
  
- **Strategic investments in advanced networks yield benefits in terms of competitive positioning and financial performance**
  - Pelephone's new HSPA network drives material improvement in profitability
  - Successful commercial launch of NGN strengthens Bezeq Fixed-Line's market leadership
  
- **Solid cash flow generation allows for the continued generation of shareholder value**
  - FCF grows 9.6% YoY to NIS 657 MM, as capex/sales declines to 13.8% from 19.2% in 3Q08



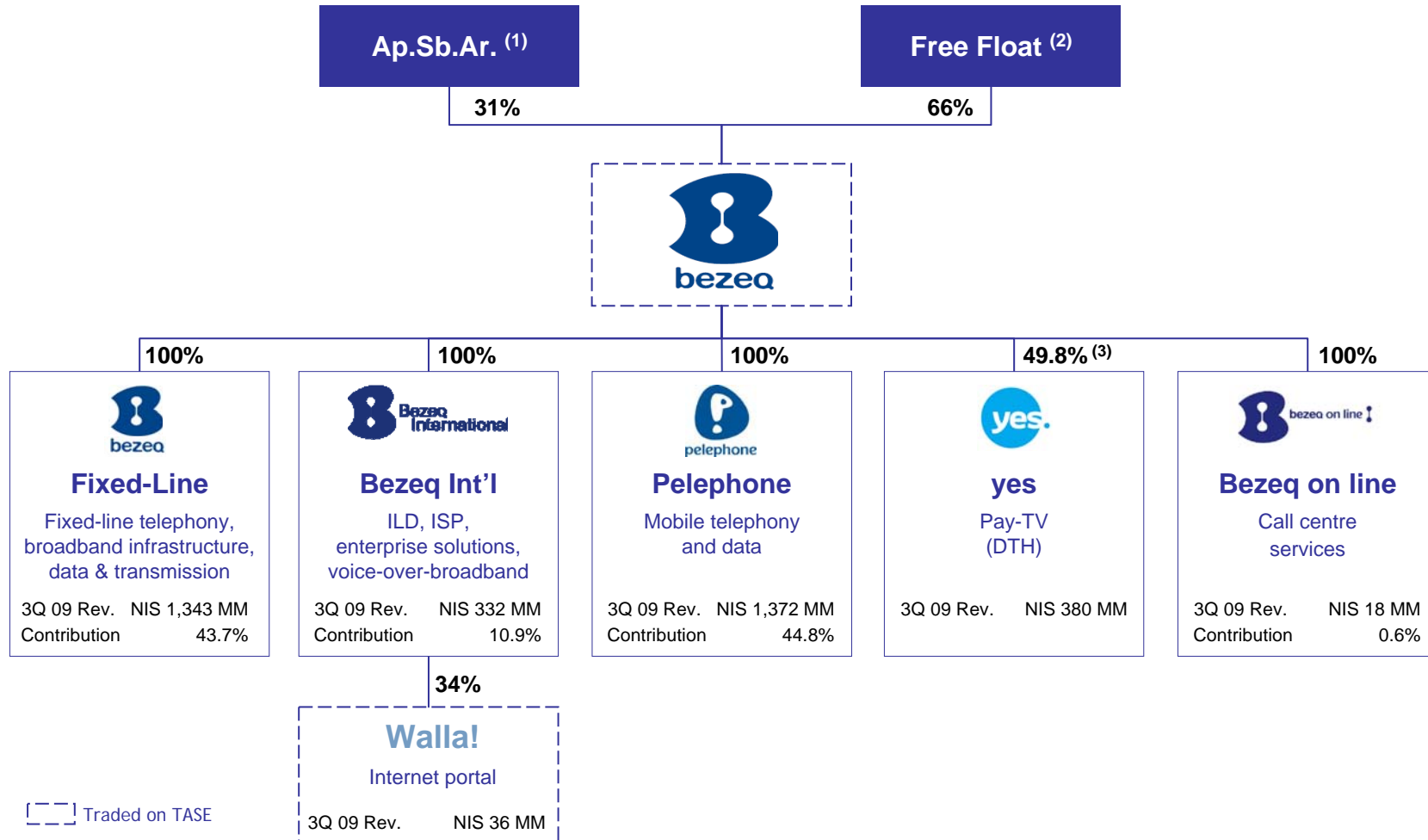
## 2009 Financial Outlook

- ❗ **The Bezeq Group continues to anticipate achieving 2009 revenues, net profit, EBITDA, and operating cash flows above those of 2008**
  - ❗ Outlook is based upon the materially stronger financial performance for the first nine months of 2009 as compared to the same period of 2008
  - ❗ 3Q09 results further strengthen current outlook
  - ❗ We are not changing our outlook for gross capital expenditures, which are still expected to be close to the 2008 level



# Bezeq Group Profile

Israel's most comprehensive telecom services provider



1. Private equity consortium comprised of Apax Partners, Saban Capital Group, and Arkin Communications. Ap.Sb.Ar. has entered an agreement to sell its controlling stake to 012 Smile.Communications, to be completed by April 25<sup>th</sup> 2010.  
 2. The State of Israel owns about 3% of the outstanding shares of Bezeq, most of which would become part of the free float on a fully diluted basis.  
 3. Following a Supreme Court decision which prevents Bezeq from getting control of yes, as of August 21<sup>st</sup>, 2009, Bezeq ceased consolidating yes' financial results and started accounting for its investment in yes according to the equity method.



## Recent shareholder transactions remove share overhang and increase daily trading volumes

- ‡ **Controlling shareholder Ap.Sb.Ar. Holdings Ltd. has entered into an agreement with 012 Smile Communications Ltd. for the sale of its 30.6% stake in Bezeq shares**
  - ‡ The completion of the deal is subject to certain conditions mainly relating to the receipt of required regulatory approvals no later than April 25<sup>th</sup>, 2010
  
- ‡ **Significant increase in free float from approx. 40% to 66%, through successful distributions of shares in domestic and international markets**
  - ‡ Ap.Sb.Ar. recently sold approx. 10% of Bezeq shares in two blocks
  - ‡ The receiver of Zeevi Communications Holdings Ltd. recently sold approx. 17% of Bezeq shares in three blocks
  
- ‡ **Average daily trading volumes in Bezeq shares increased to over NIS 90 MM in the past three months, as compared to an average of NIS 65 MM YTD and approx. NIS 40 MM in 2008**





## Regulatory Environment – Update

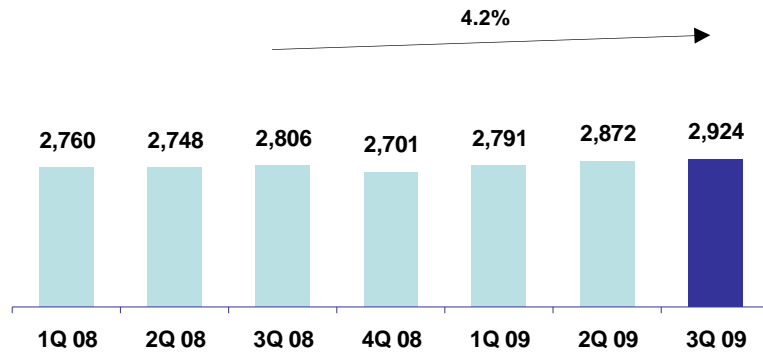
- **Supreme Court decision prevents Bezeq from getting control in yes**
  - Bezeq will continue to hold its 49.8% stake in the satellite-based multi-channel pay-TV operator
  
- **Fixed-Line – Bezeq’s market share in the fixed-line consumer sector down to 78.5% as of June 2009**
  - Negotiations continue with MoC around license changes that will allow for the offering of bundled services (triple-play)
  - Bezeq’s market share in the fixed-line business sector went down to 86.3% vs. 90% a year ago
  
- **Mobile market regulation**
  - The MoC published key tender principles for the introduction of an additional mobile operator
  
- **Bezeq International – launch of Voice-over-Broadband (“VOB”) services in order to complement portfolio**



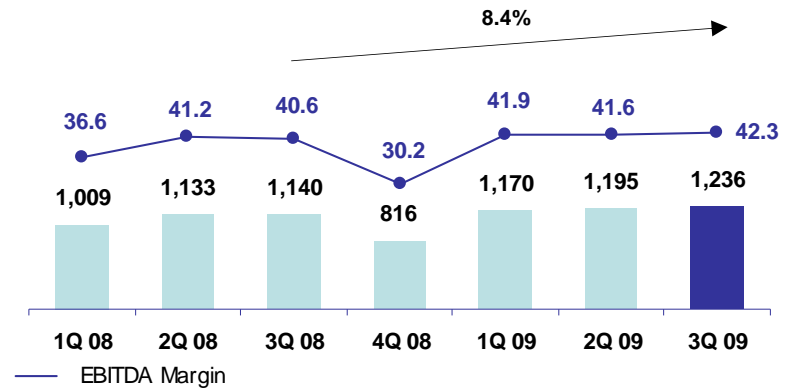
# Bezeq Group Financial Performance

(excluding yes)

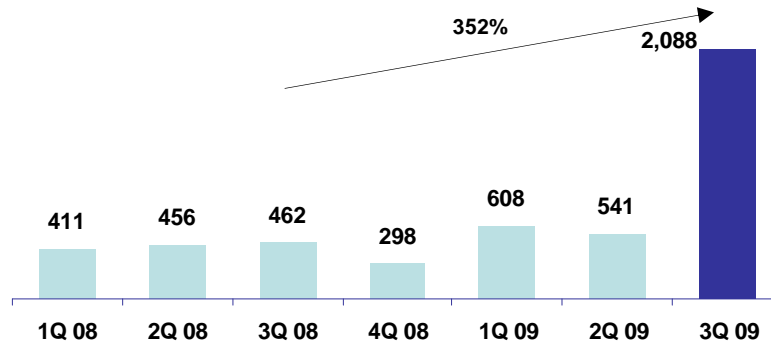
**Group Revenue**  
NIS MM



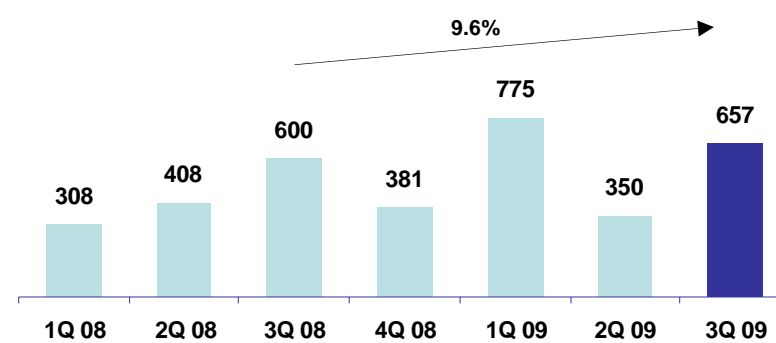
**Group EBITDA**  
NIS MM



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



**Group Free Cash Flow <sup>(1)</sup>**  
NIS MM



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

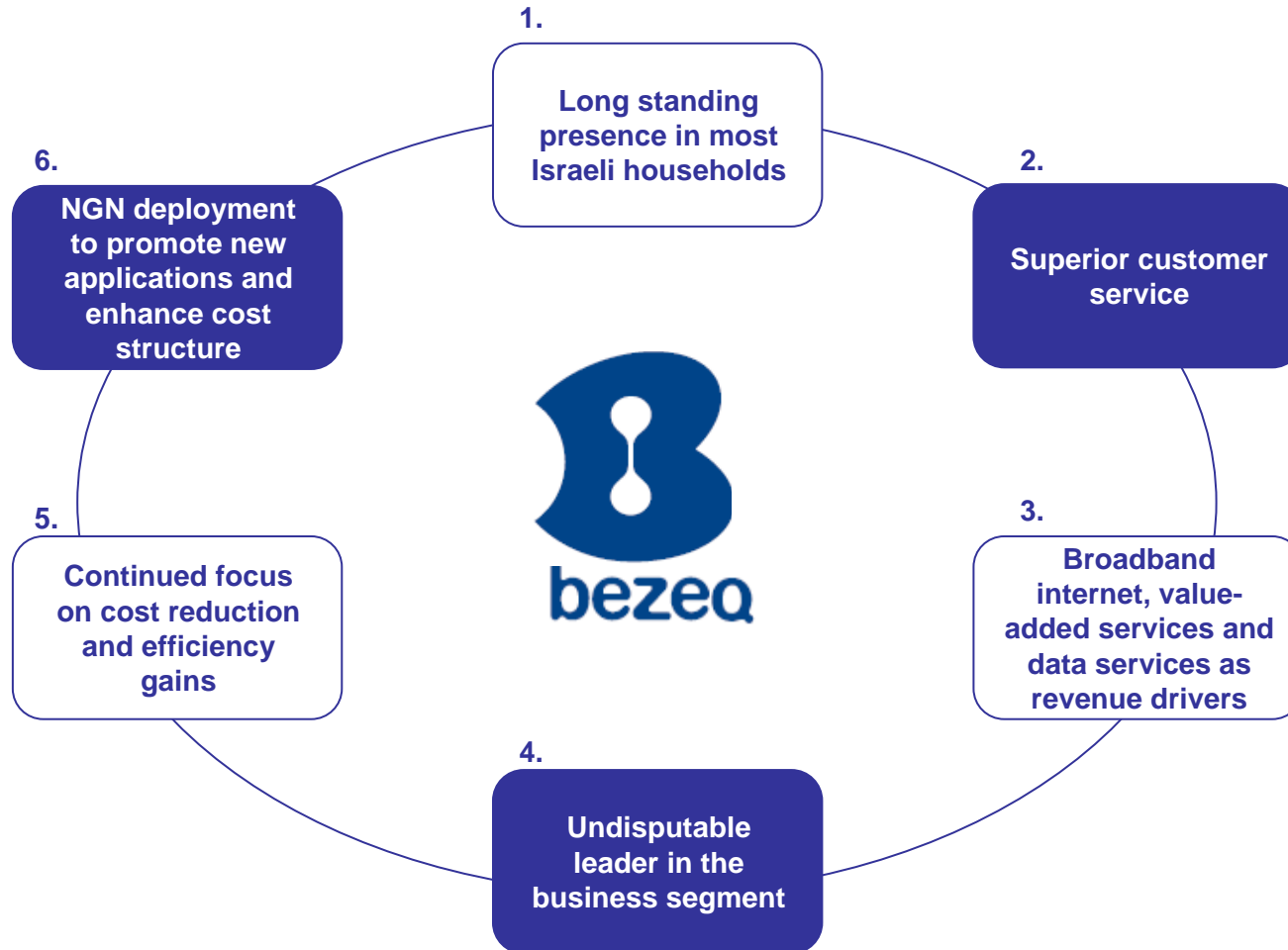




Bezeq Fixed-Line

# Fixed-Line Overview

The leading fixed-line services operator in Israel



## Fixed-Line 3Q09 Highlights

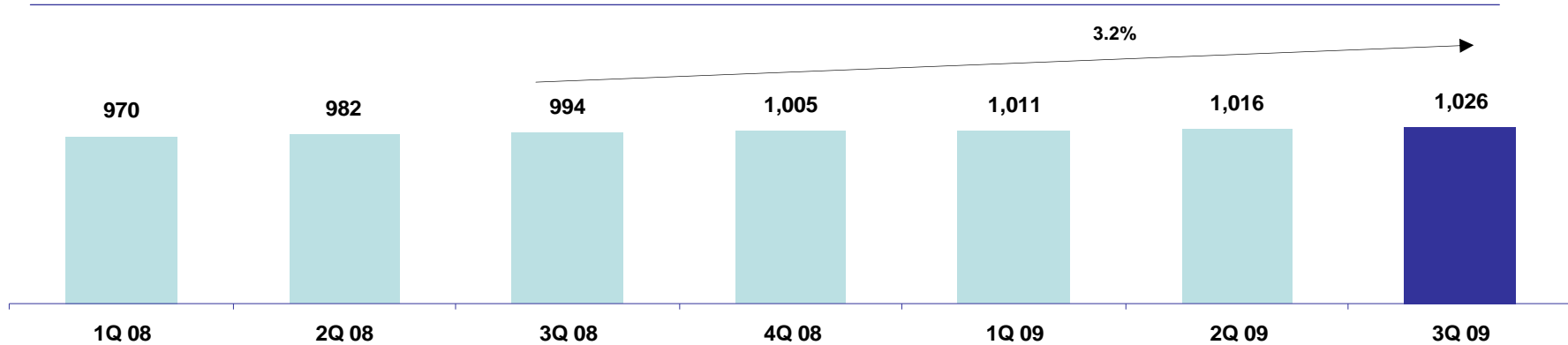
- **Impressive EBITDA margin of 50.3% – among the best for European former telecom incumbents**
  - Total operating and general expenses declined 11.3% YoY
  - Salary expenses declined 11.8% YoY, mainly due to capitalization of network projects, including NGN-related work
- **Successful commercial launch of NGN network**
  - 270k subscribers connected to the network, and 15k subscribers already enjoying NGN bandwidths
  - Bezeq plans to make NGN available to over one million households by 2010
- **Growth in internet access, data & transmission services reduces impact of telephony revenue erosion**
  - 11.2% YoY combined growth in internet, data & transmission
  - Fixed-Line's revenues decline only 2.7% YoY when adjusting for mobile interconnect fees
  - Internet ARPU increased 5.9% YoY to NIS 72, driven by bandwidth upgrades and value-added services
- **Labour agreement update**
  - On Nov 5<sup>th</sup>, 2009, the Company announced that it will early retire in 2010 an additional 171 employees at an approximate cost of NIS 225 MM



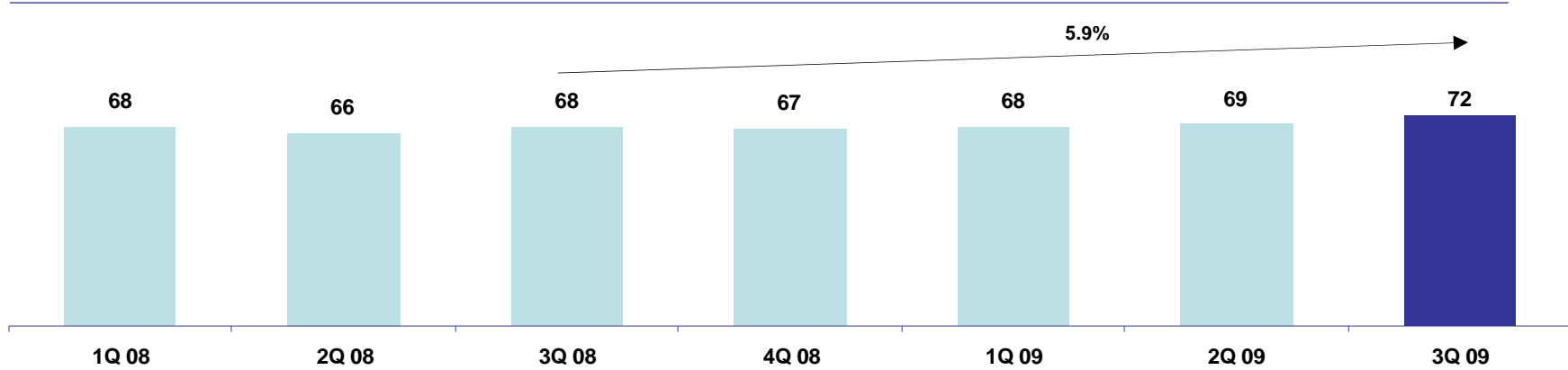
## Broadband KPIs

Strong Internet ARPU and continued growth in ADSL lines lead to 13.9% YoY increase in broadband revenues

ADSL Lines  
'000



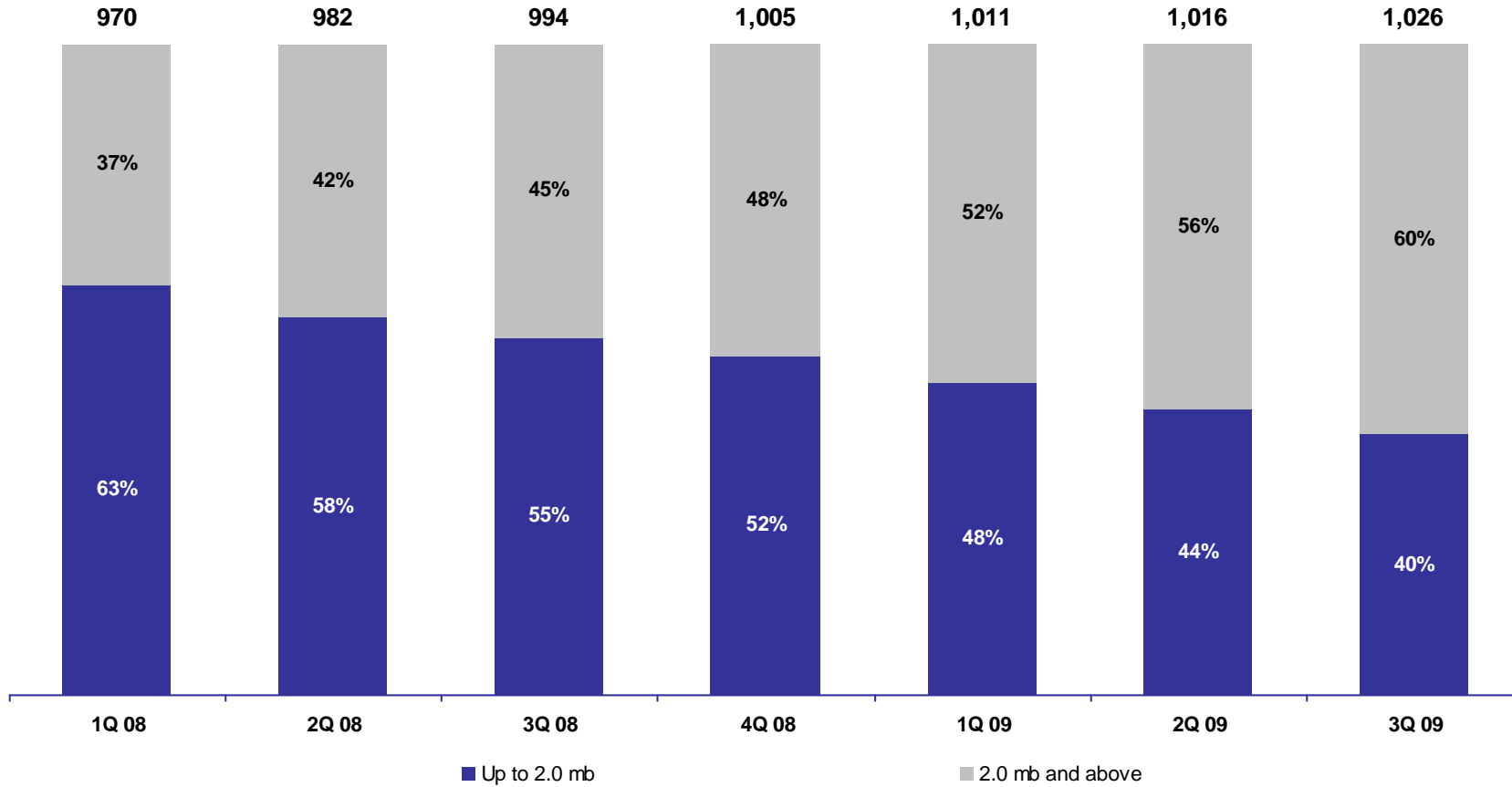
Broadband Internet ARPU  
NIS/Month



# Broadband KPIs

Active management of the subscriber base contributes to ARPU strength

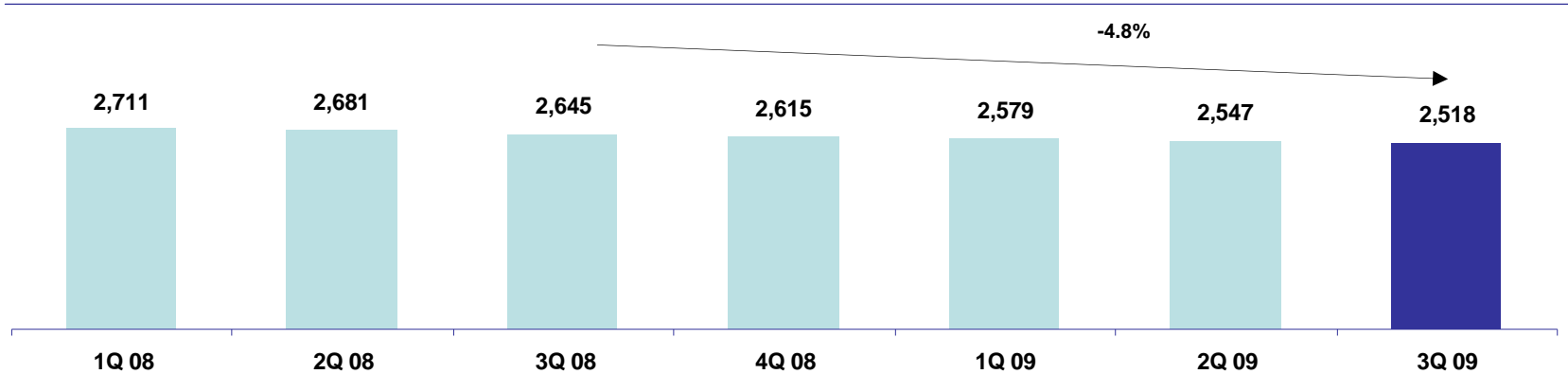
Broadband Subscribers Split by Bandwidth  
'000



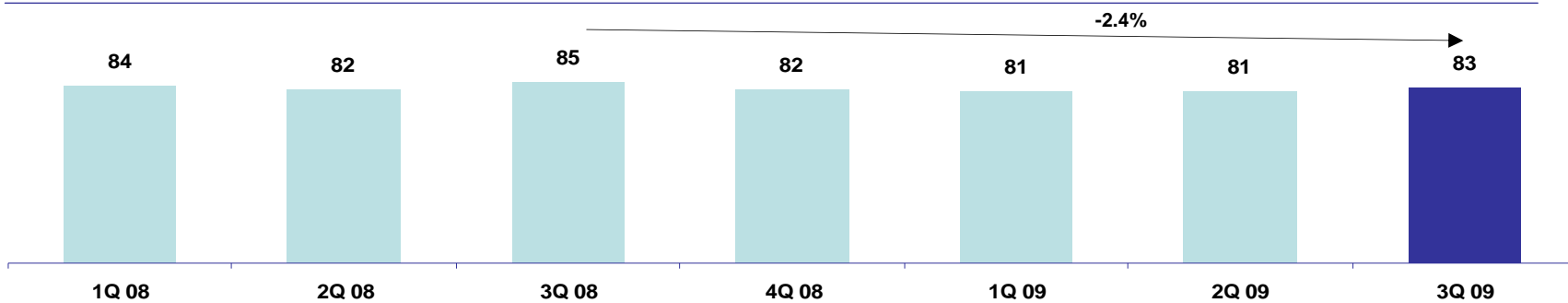
# Domestic Telephony KPIs

Moderation in rate of lines loss combined with sequential growth in ARPL

Access Lines  
'000



ARPL<sup>(1)</sup>  
NIS/Month



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

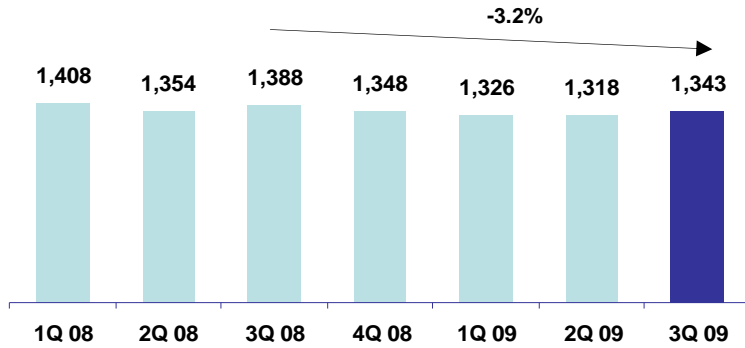




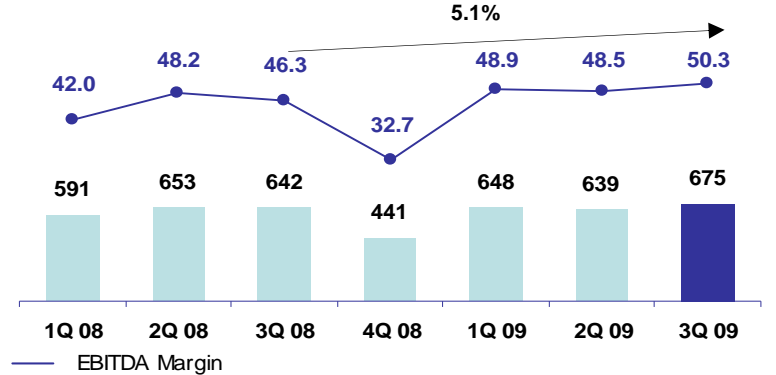
# Fixed-Line Financial Performance

Record EBITDA margin of 50.3%; NGN rollout leads to capex ramp up

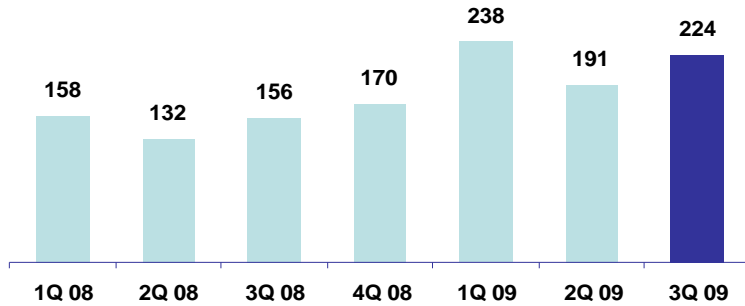
Fixed-Line Revenue  
NIS MM



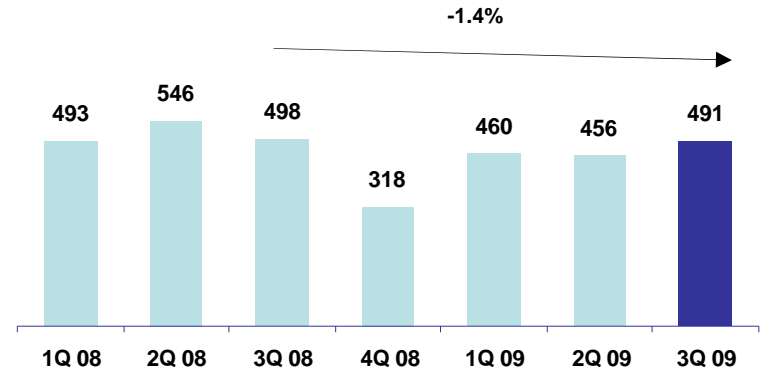
Fixed-Line EBITDA  
NIS MM



Fixed-Line Gross Capex (Payments)  
NIS MM



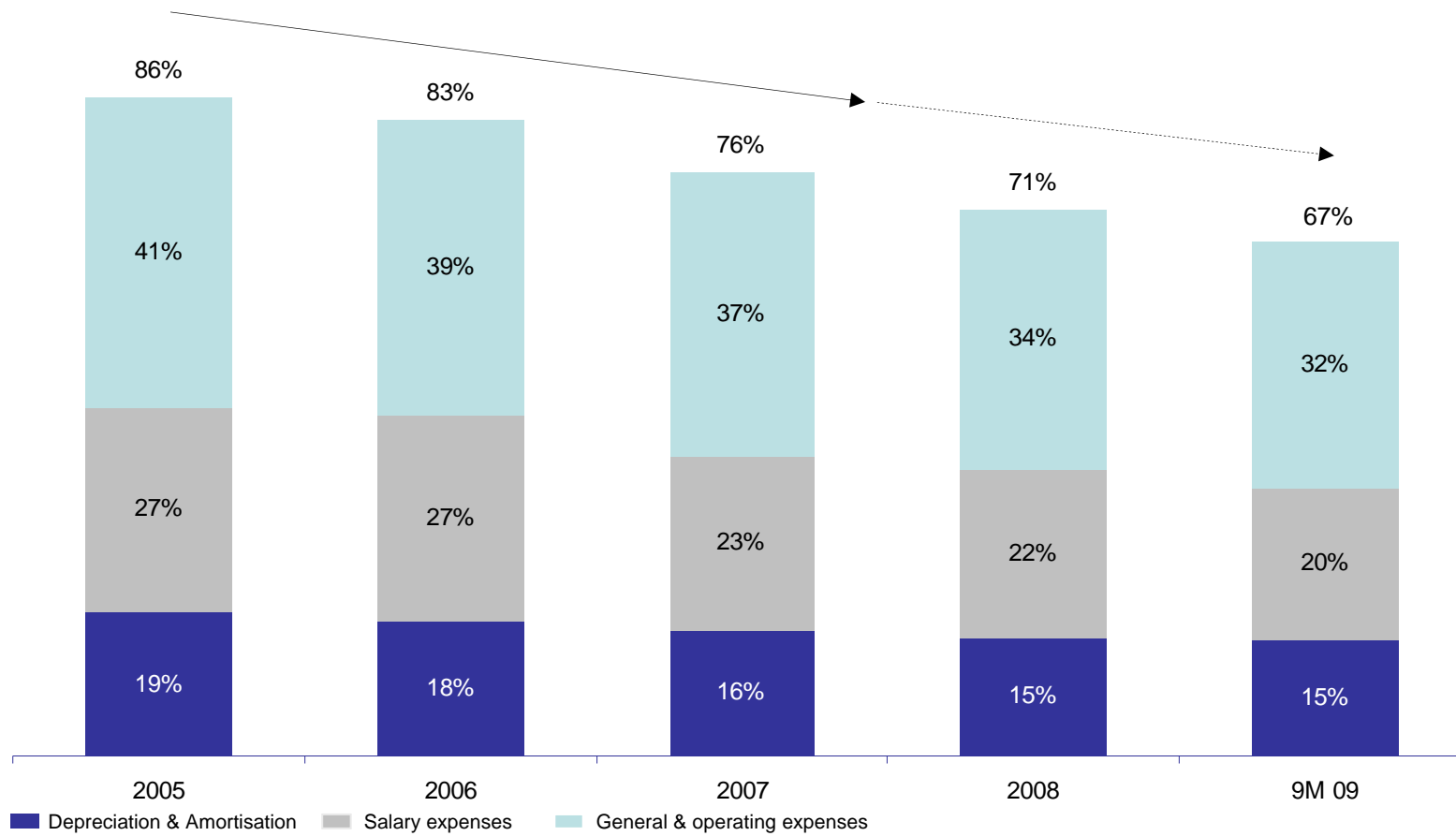
Fixed-Line EBITDA less Net Capex  
NIS MM



# Cost Structure Development

Further reduction of the cost base delivers higher profitability

Cost Structure <sup>(1)</sup>  
% 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, ILD<sup>1</sup> 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 3Q09 Highlights

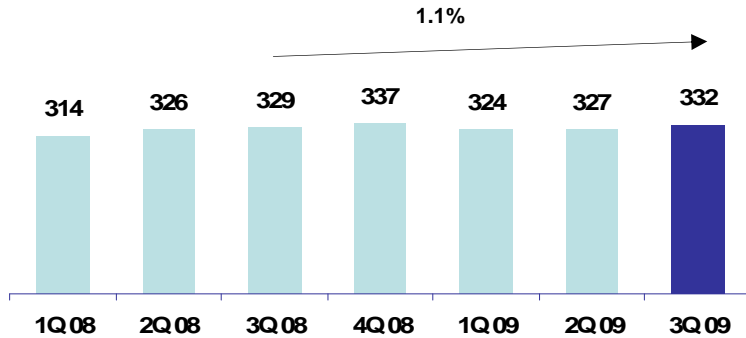
- ⌚ **Double digit YoY growth in operating profit (NIS 66 MM), net profit (NIS 51 MM) and EBITDA (NIS 88 MM)**
  - ⌚ Strong growth in core broadband ISP services
  - ⌚ Continued operating efficiency reflected in EBITDA margin improvement to 26.4% vs. 24.0% in 3Q08
  
- ⌚ **Further market share increase to 36% of the highly competitive ISP segment**
  - ⌚ Bandwidth upgrades and sales of value-added services continue to drive ISP revenue growth
  - ⌚ Launch of VOB services aimed at increasing customer choice and driving new revenue sources
  - ⌚ Preparations for the launch of NGN-oriented ISP offering (PRIVATE NGN)
  
- ⌚ **Substantial YoY gains in operating and free cash flows**
  - ⌚ Working capital improvements combined with stable capex delivered FCF of NIS 48 MM in 3Q09 and NIS 172 MM in 9M09



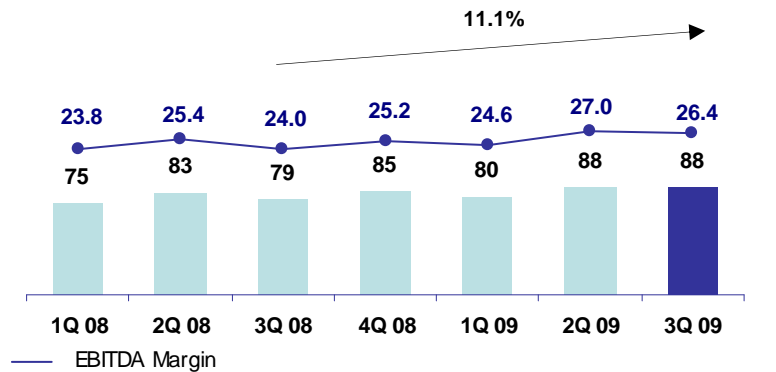
# Bezeq International Financial Performance

Focus on working capital management results in substantial YoY increase in FCF

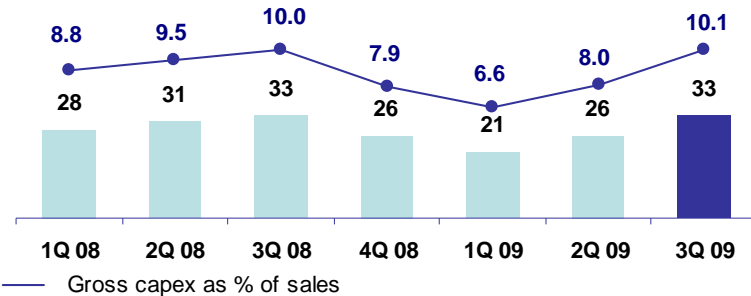
**Bezeq International Revenue**  
NIS MM



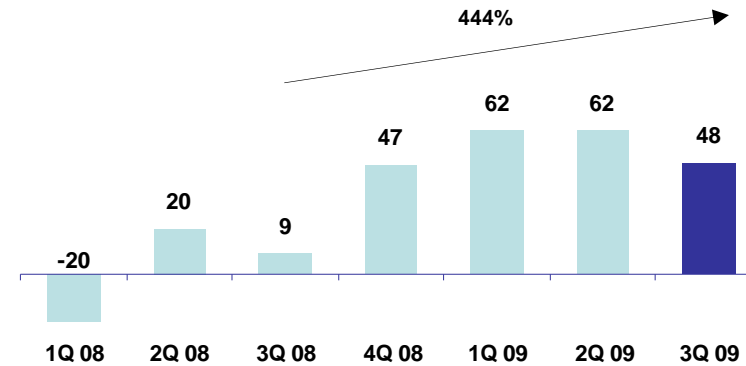
**Bezeq International EBITDA**  
NIS MM



**Bezeq International Gross Capex (Payments)**  
NIS MM



**Bezeq International Free Cash Flow <sup>(1)</sup>**  
NIS MM



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

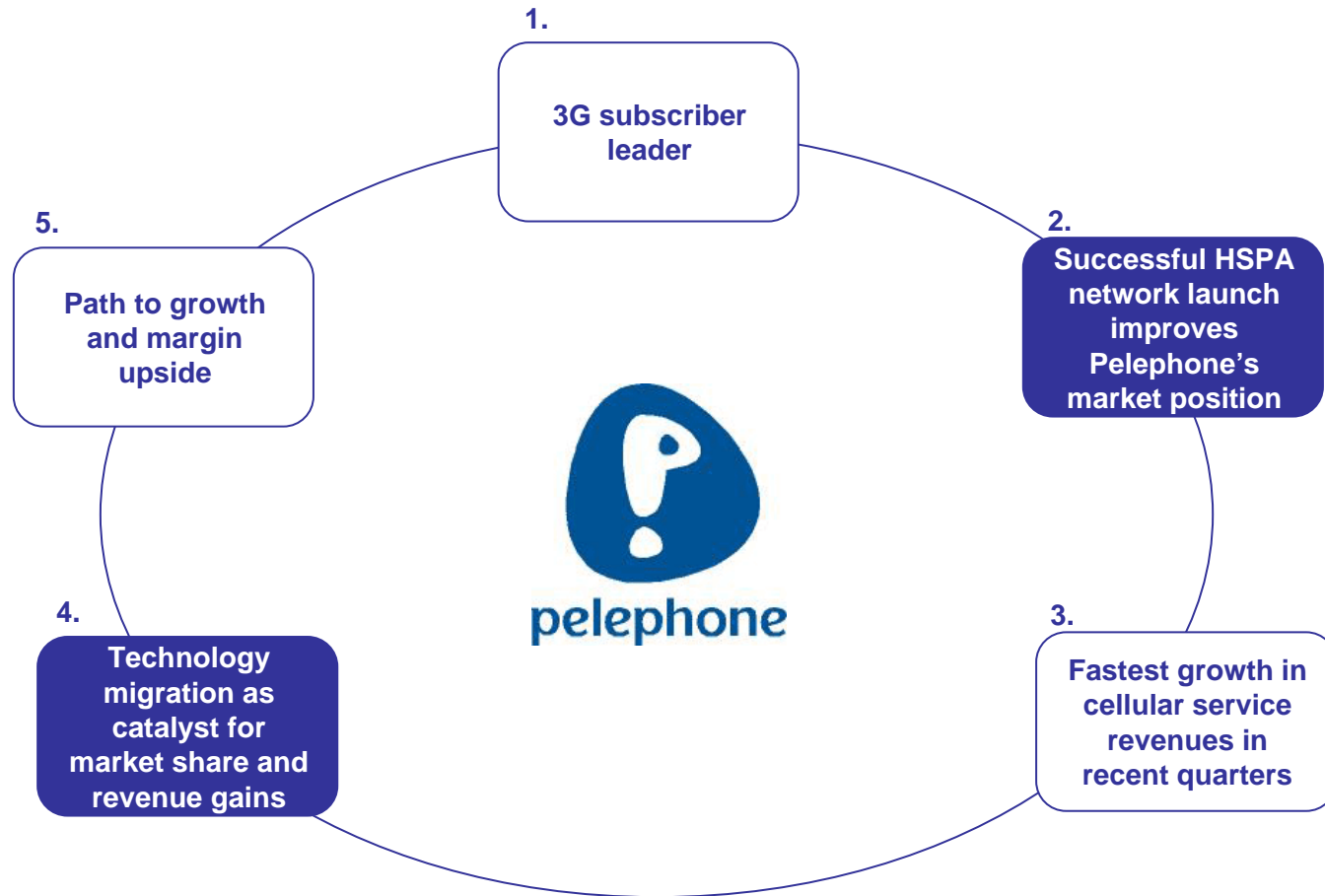




pelephone

# Pelephone Overview

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





## Pelephone 3Q09 Highlights

### ! HSPA network success drives robust growth in revenues and profits

- ! Total revenues reach NIS 1,372 MM, up 13% YoY; revenues from cellular services increase 7% YoY
- ! 520k subscribers on new network as of early November – over 17% of Pelephone's total subscribers
- ! New HSPA subscribers contribute higher ARPU
- ! 27k net new subscribers in 3Q09

### ! Revenues from data, VAS and content reach a record 20.3% of cellular services revenues

- ! Growth driven by sales of smartphones and mobile data cards (Netstick), as well as new content services
- ! ARPU increases to NIS 136, the highest level since 4Q06 <sup>1</sup>
- ! MOU declined 5.6% YoY to 339 minutes due primarily to per second billing interval change as of Jan-09 <sup>1</sup>

### ! Robust profitability; EBITDA increases 11.6% YoY to NIS 471 MM

- ! Net profit reaches NIS 231 MM, up 9.5% YoY
- ! Operating cash flow growth and capex decline lead to FCF of NIS 249 MM vs. just NIS 29 MM in 3Q08

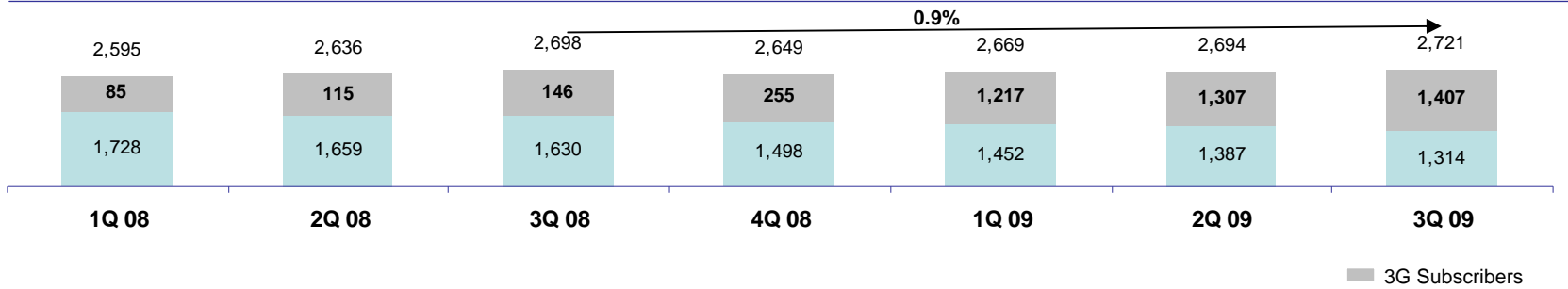
1. The YoY comparison of ARPU and MOU were influenced by the reduction of approx. 92k dormant subscribers at the end of 2008.



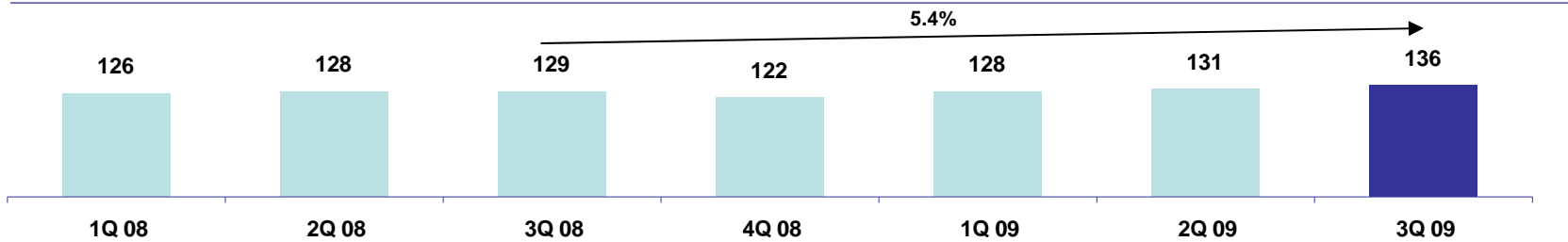
# Pelephone KPIs

Data and VAS revenue reaches 20.3% of cellular services revenue and contributes to highest ARPU since 2006

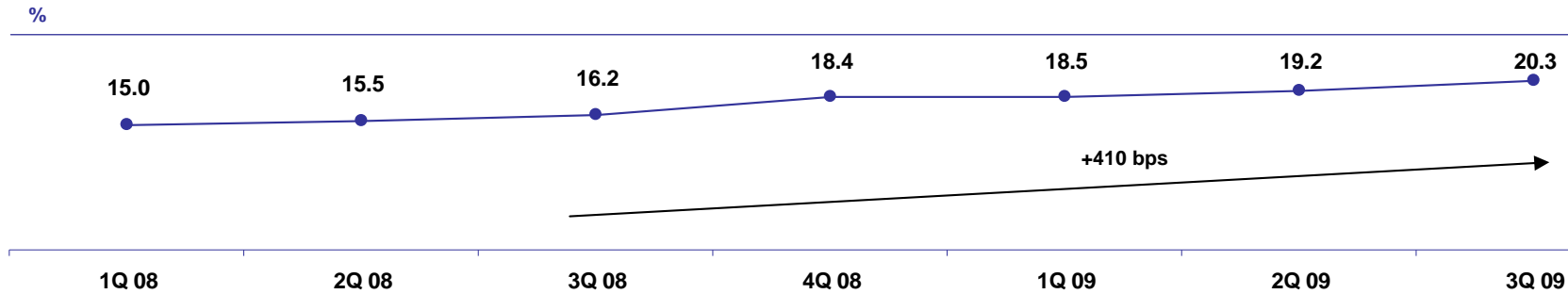
**Subscribers**  
'000



**ARPU**  
NIS/Month



**Data and VAS Revenue as a Percentage of Cellular Service Revenue <sup>(2)</sup>**



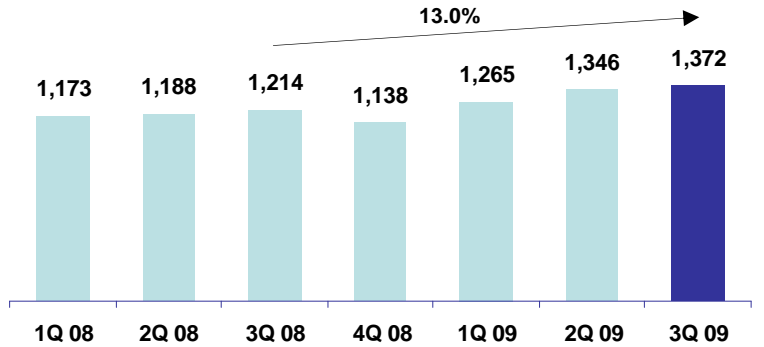
1. Following the removal of 92K subscribers who only received SMS  
 2. Includes telephony and data services but excludes sale of equipments and equipment services



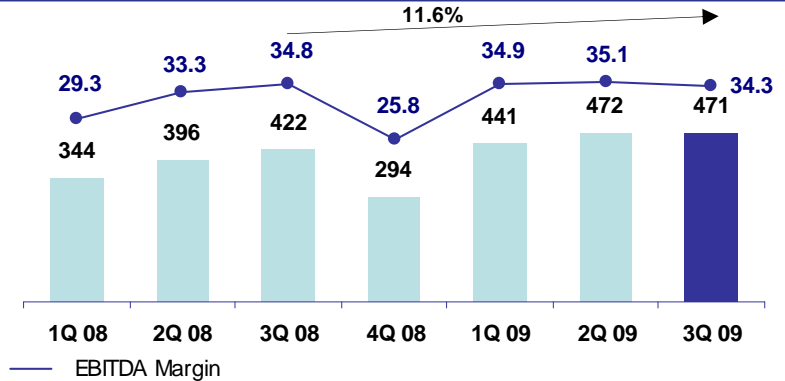
# Pelephone Financial Performance

Record revenues and robust EBITDA growth

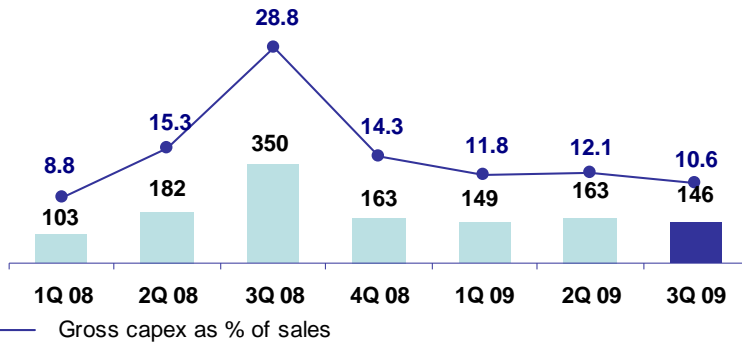
**Pelephone Revenue**  
NIS MM



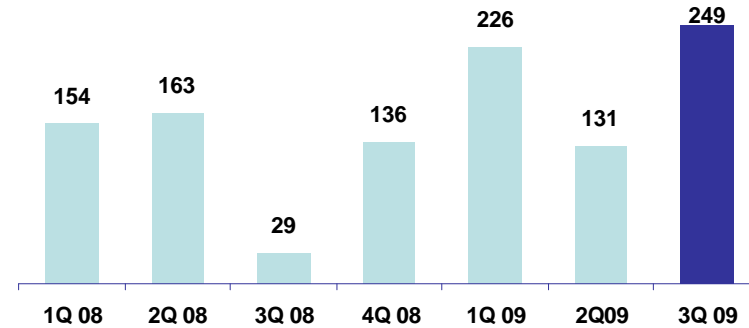
**Pelephone EBITDA**  
NIS MM



**Pelephone Gross Capex (Payments)**  
NIS MM



**Pelephone Free Cash Flow (1)**  
NIS MM

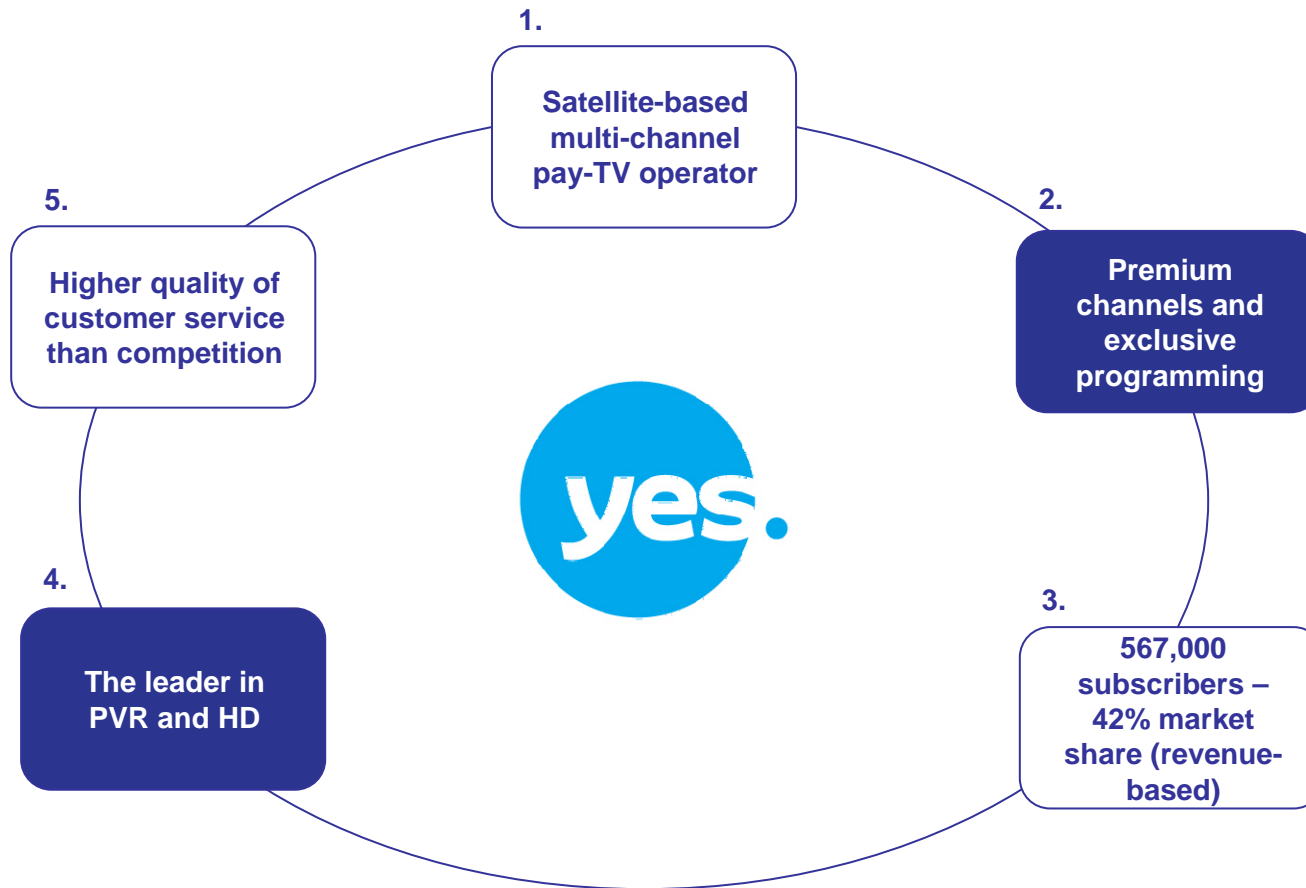


1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



# yes Overview

The premium pay-TV operator in Israel



## yes 3Q09 Highlights

### ! Solid operating performance with 15.7% and 7.6% YoY improvements in operating profit and EBITDA

- ! EBITDA margin improved to 31.4% vs. 29.6% in 3Q08 and 30.5% in 2Q09
- ! Net profit before financing expenses to shareholders increased to NIS 16 MM vs. NIS 1 MM in 3Q08
- ! Net loss of NIS 88 MM vs. NIS 82 MM in 3Q08

### ! Subscriber growth of 2% YoY in a highly penetrated market

- ! yes achieves modest revenue growth despite lack of triple play and VOD offerings
- ! Continued yes MaxHD PVR upgrade momentum reaching 29k subscribers

### ▪ Material cash flow improvements despite increase in capex

- ! Operating cash flow expands to NIS 135 MM in 3Q09 vs. NIS 97 MM in 3Q08
- ! FCF grows 16.5% to NIS 48 MM despite 55.4% increase in capex to NIS 87 MM

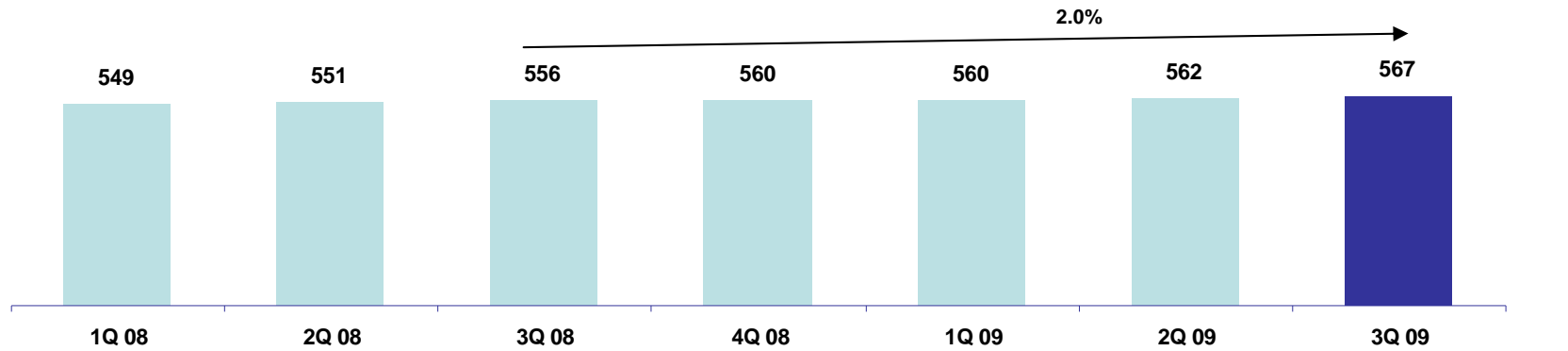


## yes KPIs

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

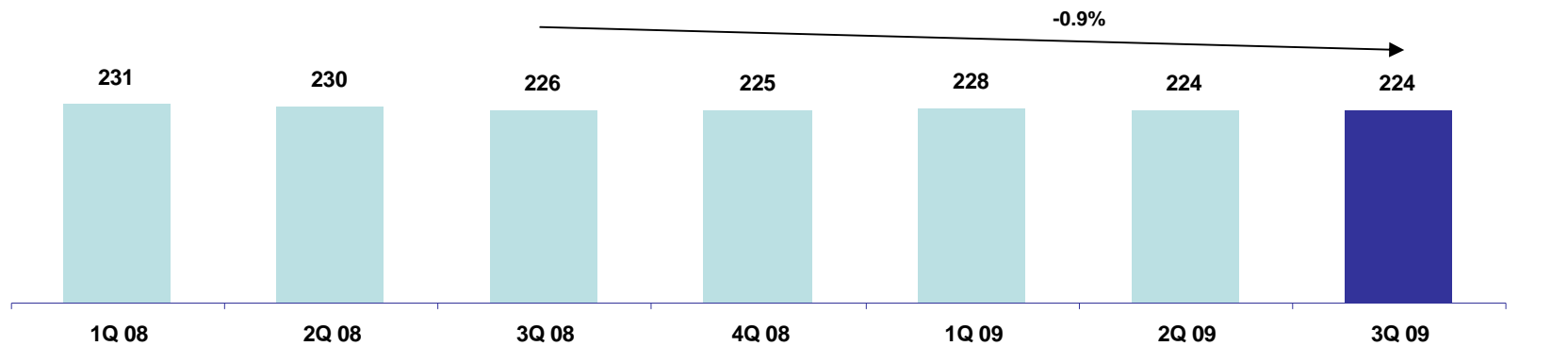
### Subscribers

'000, end of period



### ARPU (1)

NIS/Month, avg per qtr



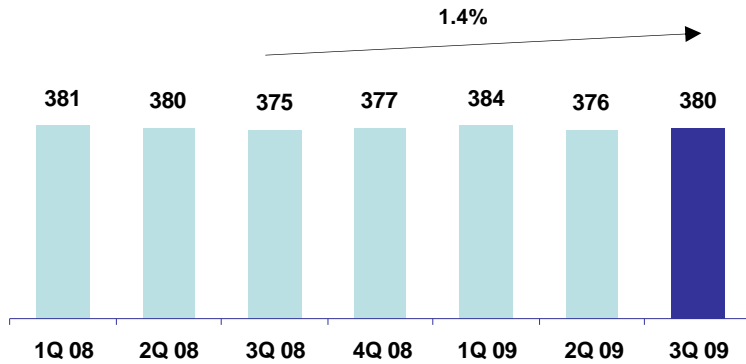
1. If revenues associated with the terminated Internet distribution agreement were excluded, 3Q09 ARPU would have increased slightly YoY.



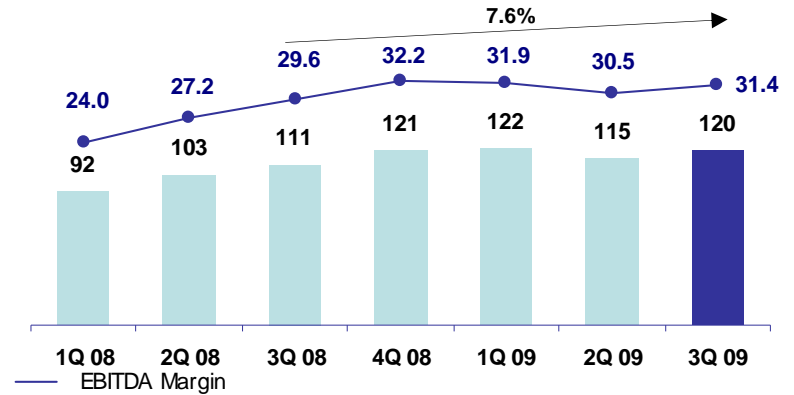
# yes Financial Performance

EBITDA improvement of 7.6% in Q309 YoY, despite modest revenue growth

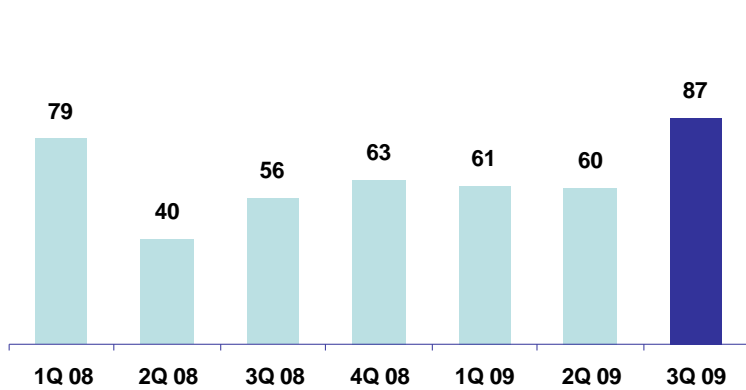
yes Revenue  
NIS MM



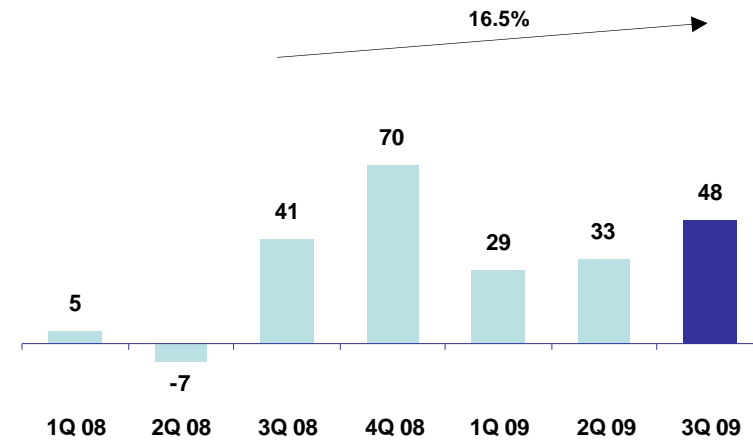
yes EBITDA  
NIS MM



yes Gross Capex (Payments)  
NIS MM



yes Free Cash Flow <sup>(1)</sup>  
NIS MM



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





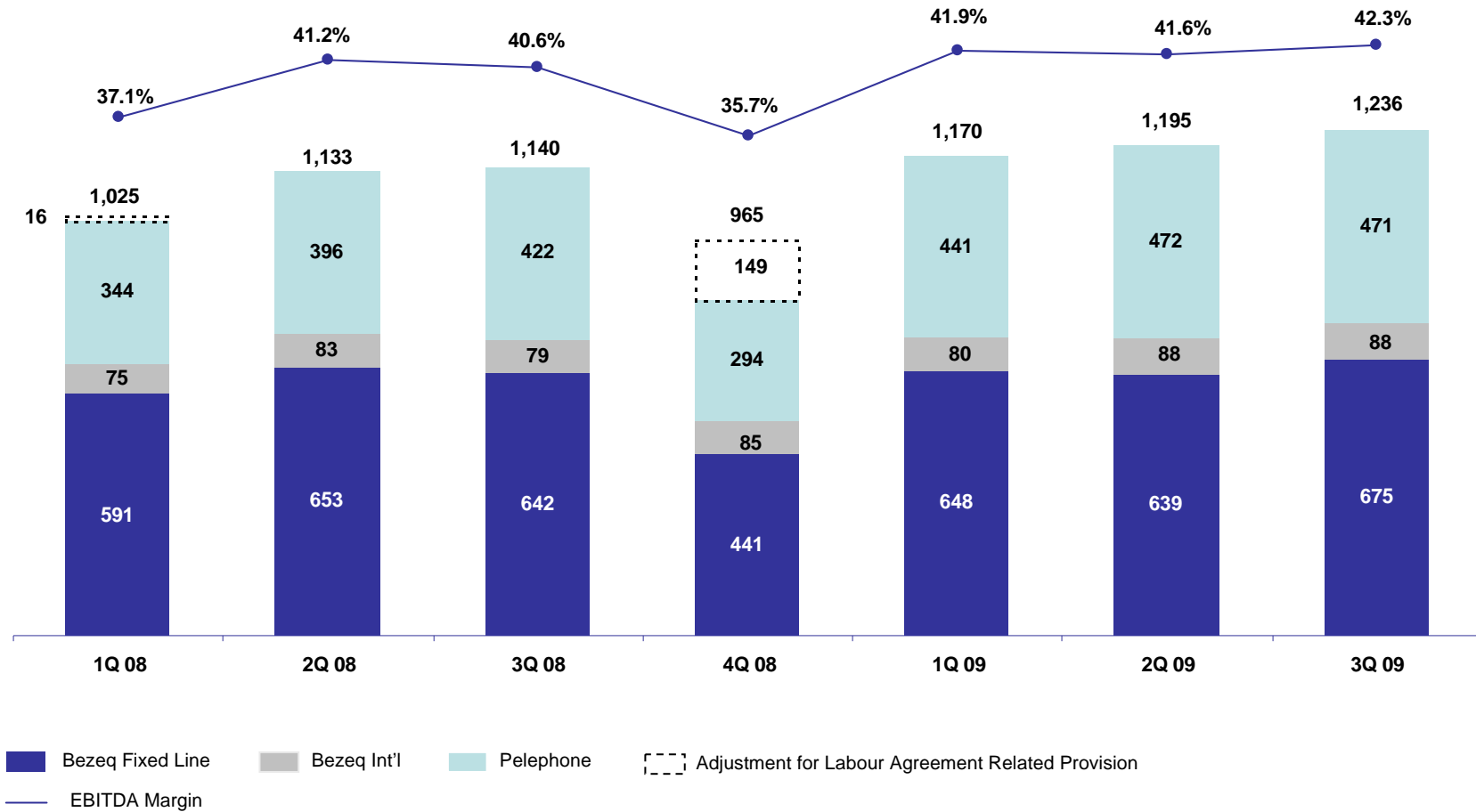


# Group Financial Review

# EBITDA Development (excluding yes)

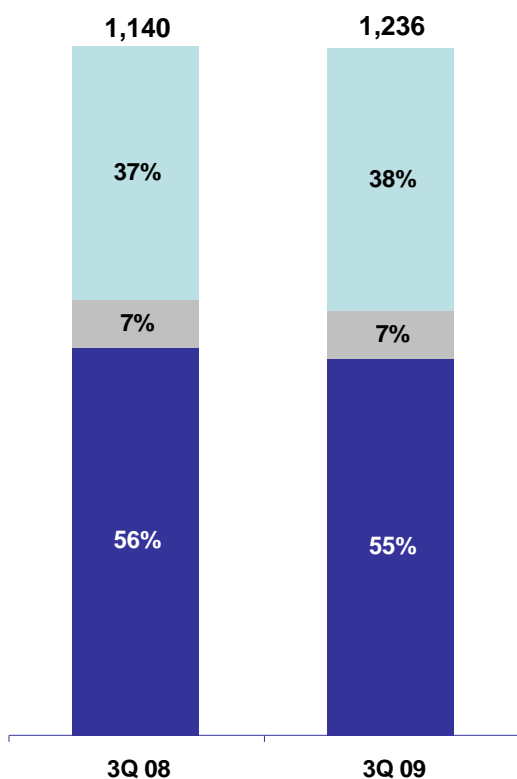
Further expansion in EBITDA combined with impressive 42.3% EBITDA margin

Group EBITDA  
NIS MM



## EBITDA Mix and EBITDA Margins

Subsidiaries' Contribution to Group EBITDA (exc. yes)  
NIS MM



■ Bezeq Fixed Line   ■ Bezeq Int'l   ■ Pelephone

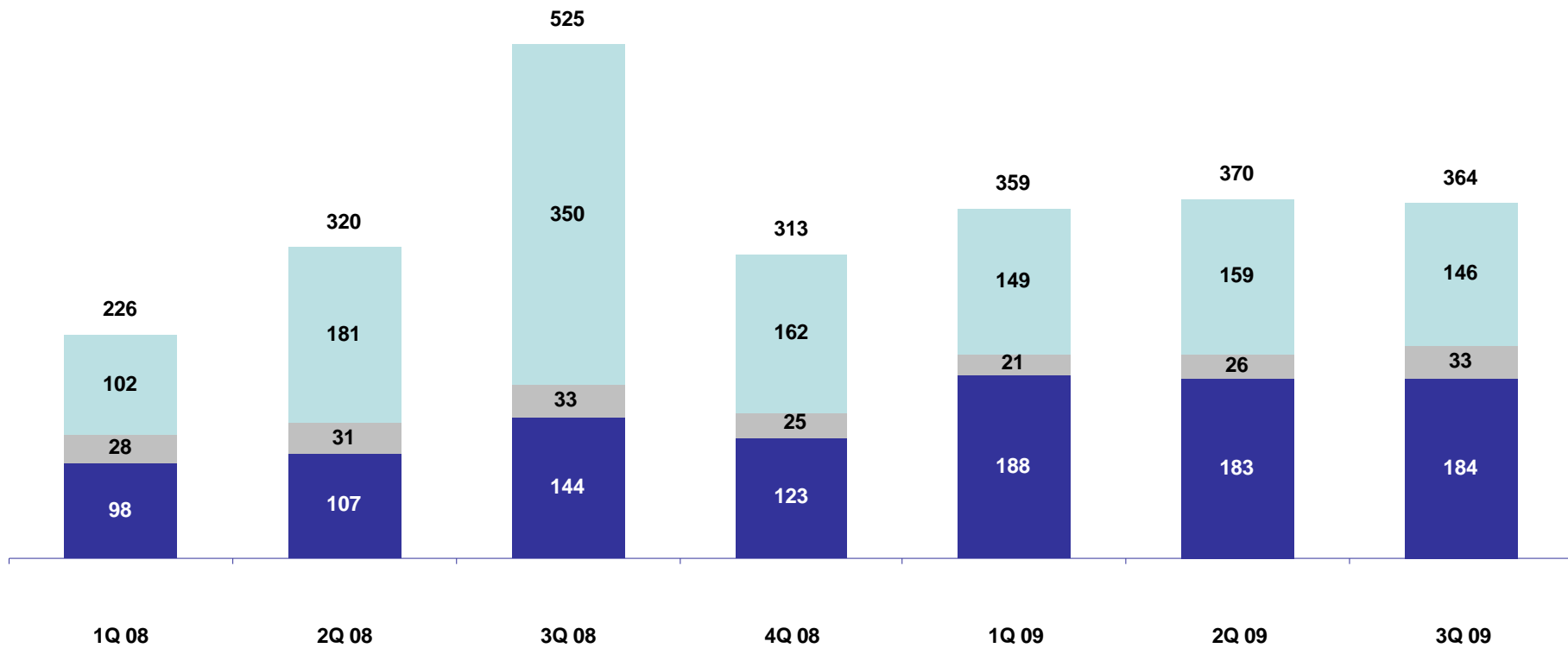
EBITDA Margin per Business Segment

	3Q09	3Q08	Change (p.p.)
<b>Bezeq Fixed Line</b>	50.3%	46.3%	+4.0 p.p.
<b>Bezeq International</b>	26.4%	24.0%	+2.4 p.p.
<b>Pelephone</b>	34.3%	34.8%	-0.5 p.p.
<b>Bezeq Group (exc. yes)</b>	42.3%	40.6%	+1.7 p.p.
<b>yes</b>	31.4%	29.6%	+1.8 p.p.



# Capex Development (excluding yes)

Group Net Capex (Net Payments)  
NIS MM



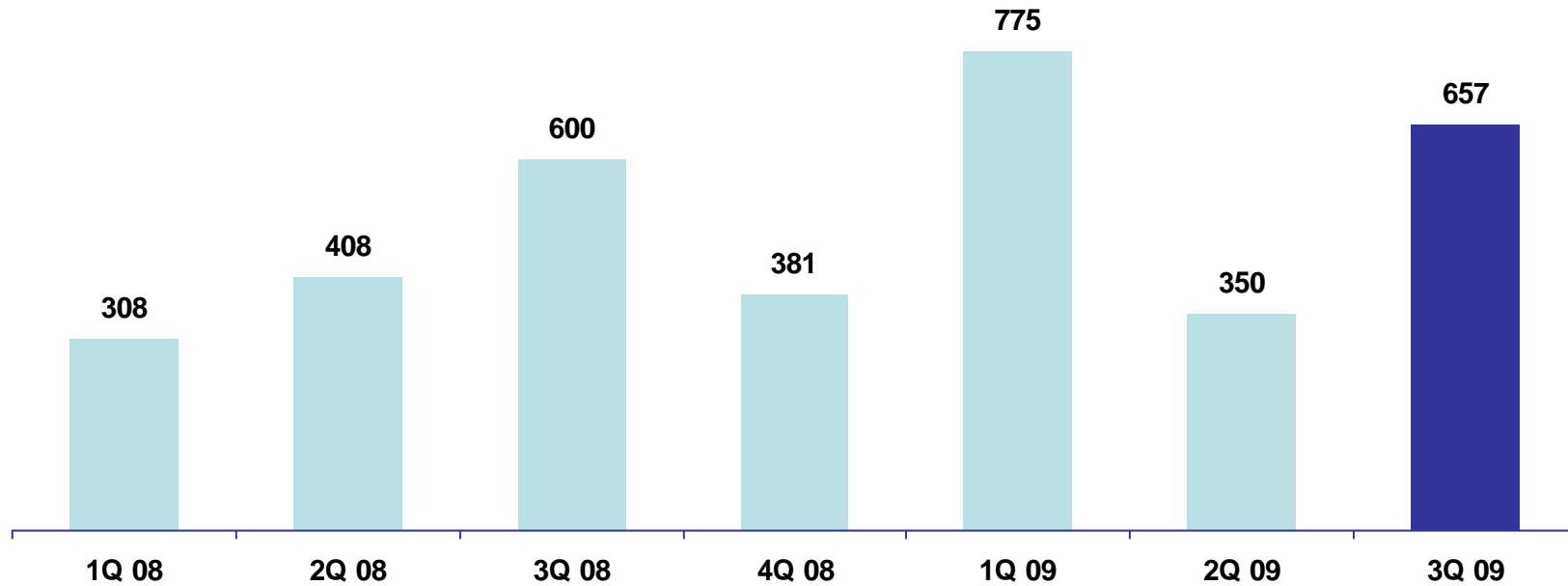
■ Bezeq Fixed Line 
 ■ Bezeq Int'l 
 ■ Pelephone



## Free Cash Flow Development (excluding yes)

Continued high free cash flow generation

Group Free Cash Flow <sup>(1)</sup>  
NIS MM



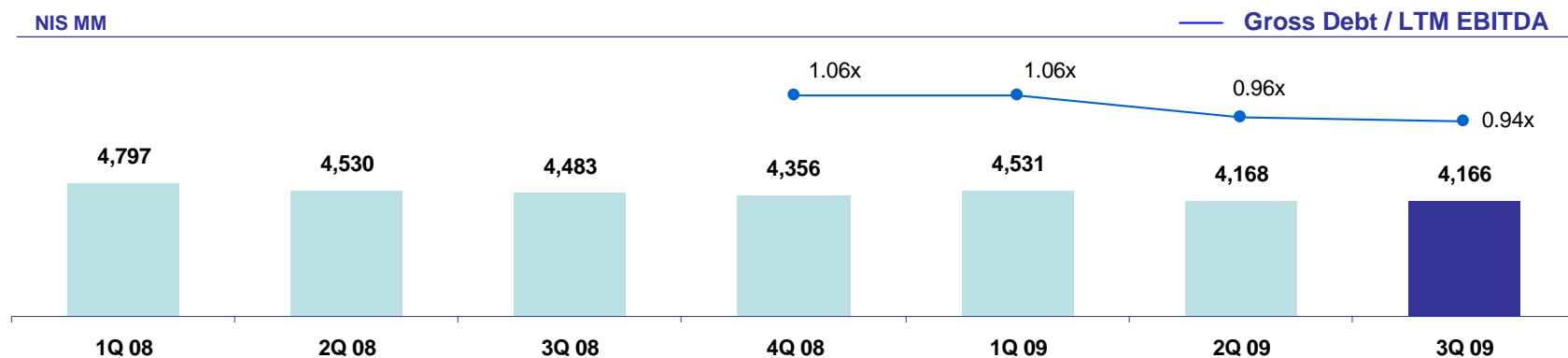
<sup>1</sup>.Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received

## Group Financial Profile (excluding yes)

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

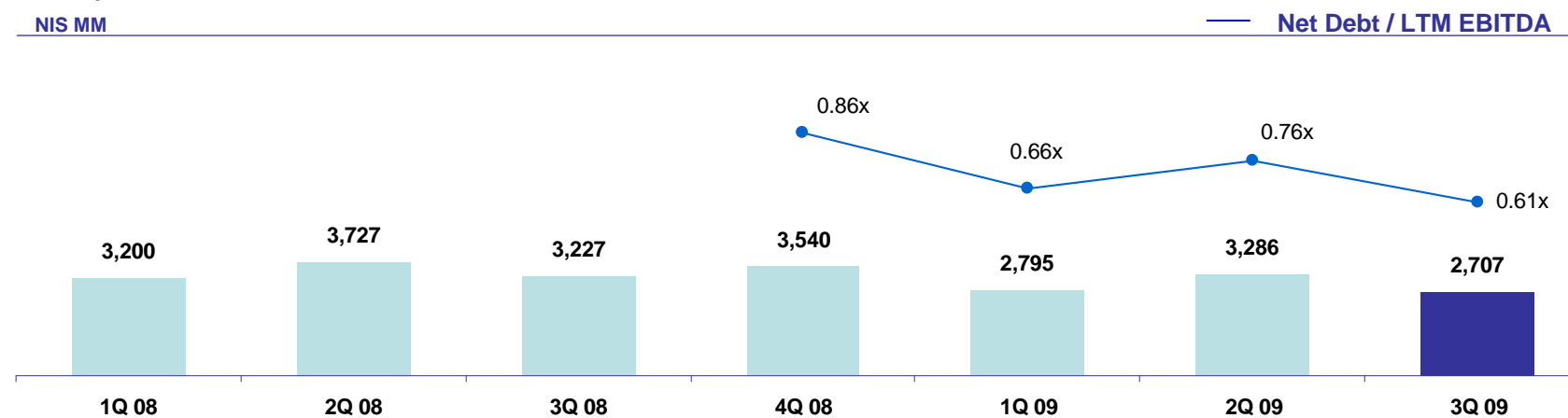
### Group Gross Debt

NIS MM



### Group Net Debt

NIS MM



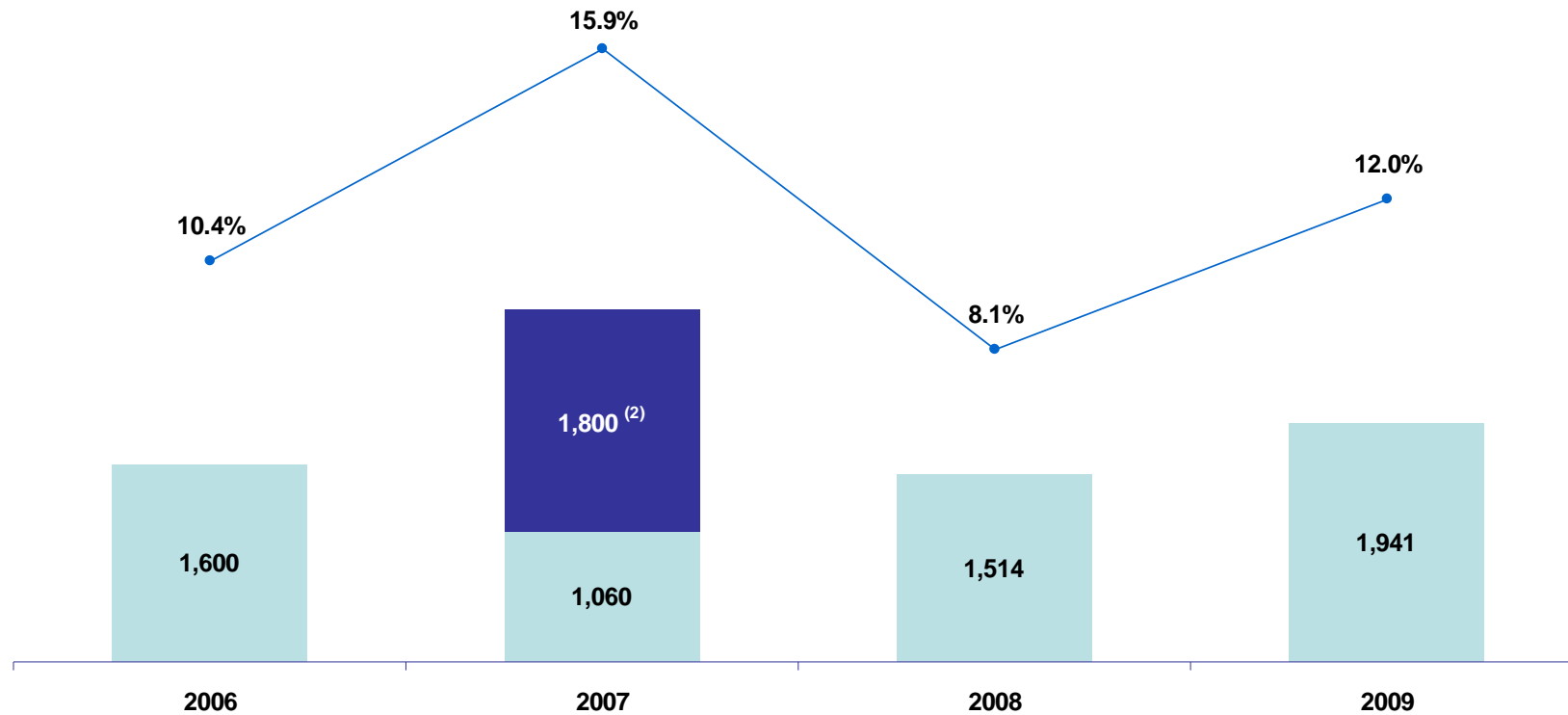
# Shareholder Remuneration

Competitive shareholder remuneration while maintaining full financial flexibility

## Dividend Distributions

NIS MM

— Dividend Yield, % <sup>(1)</sup>



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





# Thank You.

For additional information,  
please visit our website:

[www.bezeq.co.il](http://www.bezeq.co.il)