



Bezeq

First 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



1Q09 Highlights

! Sharp improvement in all profitability measures

- ! Double-digit growth in operating profit (+30%), net profit (+48%) and EBITDA (+18%), driven by a combination of net revenue growth and ongoing successful cost-efficiency measures
- ! EBITDA margin reached 40.8% on a consolidated basis

! 2% revenue growth despite challenging economic, competitive and regulatory environments

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

! Continued deployment of advanced network infrastructures at Bezeq's largest operating segments

- ! Successful launch of Pelephone's advanced HSPA network during 1Q09
- ! Fixed-Line progresses with operational deployment and customer conversion to NGN

! Substantial cash flow improvements driven by increased profitability and working capital gains

- ! Operating cash flow almost doubles YoY to NIS 1,224 million
- ! Free cash flow rises 157% YoY to NIS 804 million



2009 Financial Outlook – Update

- ⌚ Incremental visibility following 1Q09 materially stronger performance vs. 1Q08

- ⌚ The Bezeq Group anticipates achieving FY 2009 revenues, net profit, EBITDA, and operating cash flows in line with those of FY 2008
 - ⌚ Previous outlook called for EBITDA, operating cash flows and gross capital expenditures close to the levels of 2008

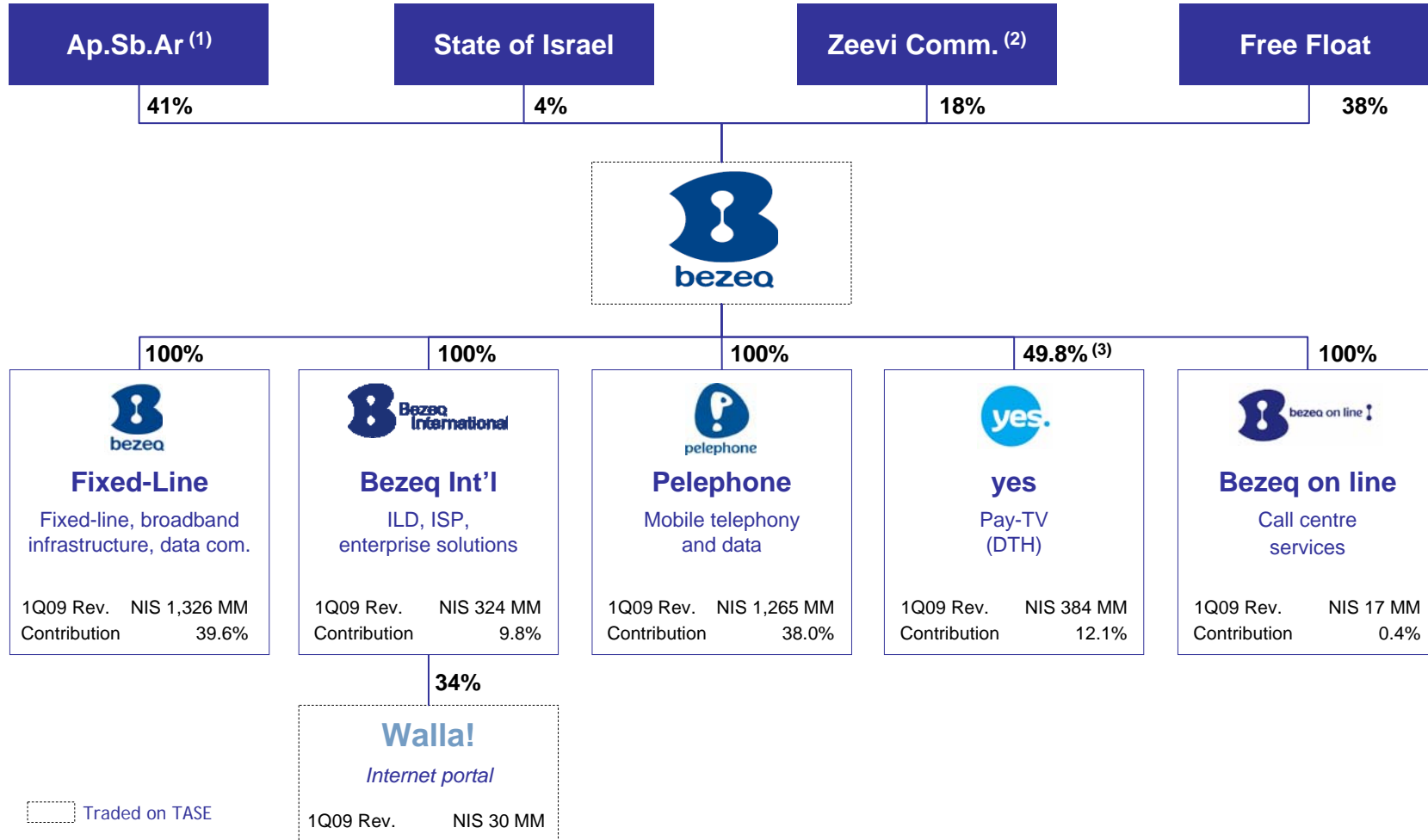
 - ⌚ Updated outlook still takes into consideration the current economic environment

 - ⌚ We are not changing our outlook for gross capital expenditures, which will still be close to the 2008 level



Bezeq Group Profile

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

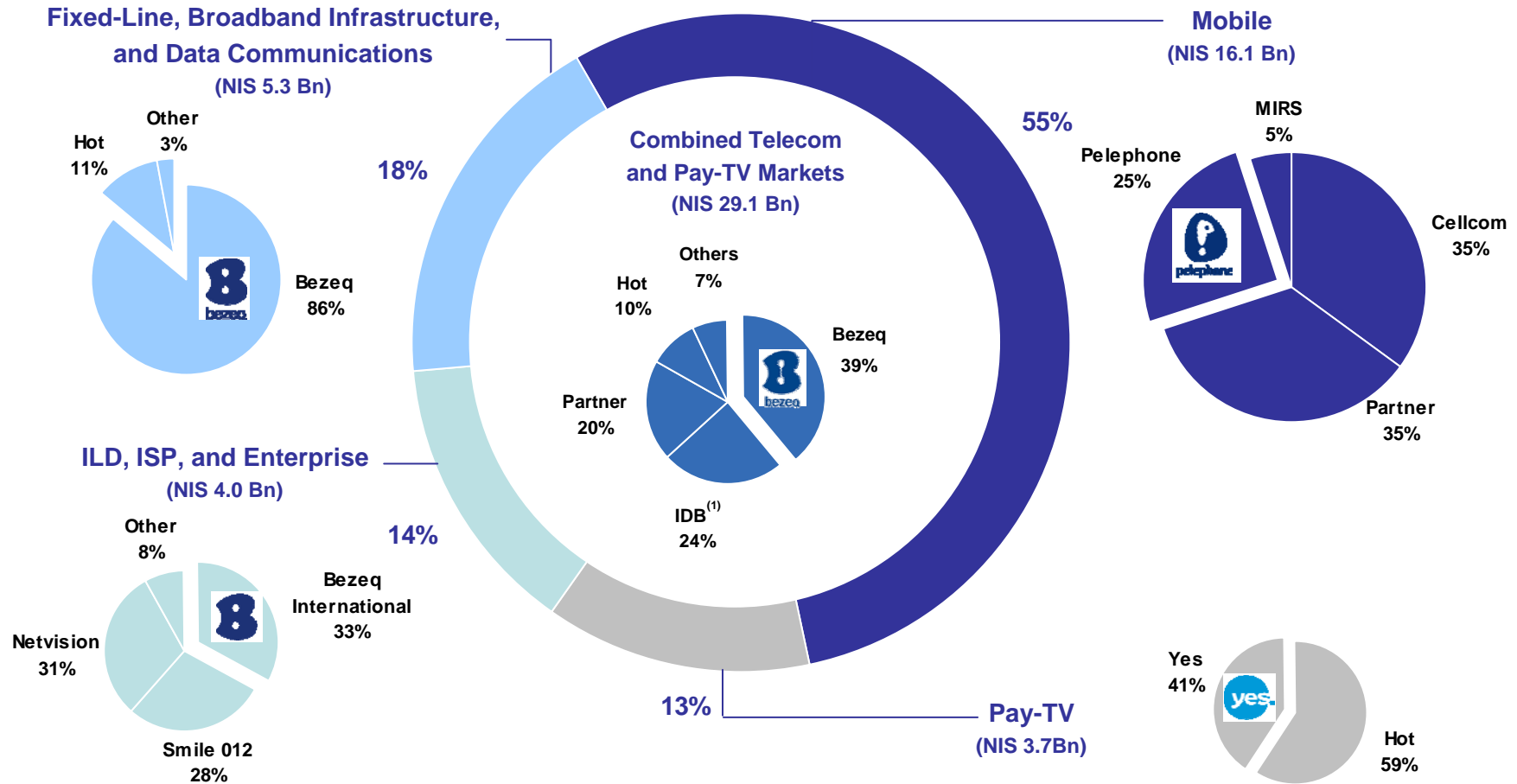


1. Private equity consortium comprised of Apax Partners, Saban Capital Group, and Arkin Communications
 2. The Zeevi stake is administered on behalf of a consortium of 7 Israeli banks
 3. Bezeq Group also owns a call option on an additional 9% of yes and fully consolidates yes' financial results



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



Vision and Strategy

Strong fundamentals underpin long term vision and strategy

- **Adapt business and network infrastructure to respond to technological changes and convergence of communications and media**
 - Strengthening our core services whilst expanding our new, IP-centric service portfolio
 - Enhance customer loyalty and create customer relationships
 - 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 business segments

- **Maximise revenue in each business segment**
 - Growth in non-traditional services to offset the decline in telephony services
 - Capitalise on the new UMTS and NGN networks
 - Increase uptake 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 business segments**



Regulatory Environment – Update

! Fixed-Line – Bezeq’s market share in the fixed-line residential sector down to 80.7% (as of Feb-09)

- ! Still awaiting MoC approval to change our companies’ licenses to allow for the offering of bundled services (triple-play), which was supposed to be granted once market share goes below 85%
- ! Bezeq Int’l is preparing to complement its services portfolio with VOB (Voice-over-Broadband) services, after receiving a license for the provision of VOB

! Mobile market getting increased regulator’s attention

- ! As of January 2009, mobile operators charge at per second and not per 12-second billing intervals
- ! Operators are no longer allowed to raise tariffs during contract period
- ! Attempts to introduce an additional mobile operator either via the MVNO model or otherwise, but not likely before 2010

! Multi-channel Pay-TV – Possible delays in implementation of MoC-sponsored committee’s recommendations

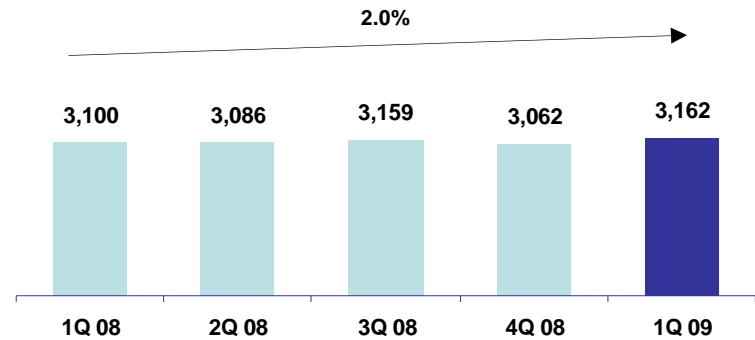
- ! MoC may delay advertising broadcast by pay-TV operators from 2012 until 2015
- ! MoC may postpone by 1 year introduction of narrow TV package, currently scheduled for Aug 2012
- ! Reduction in royalties paid by multi-channel TV operators to the State towards zero in Aug 2012



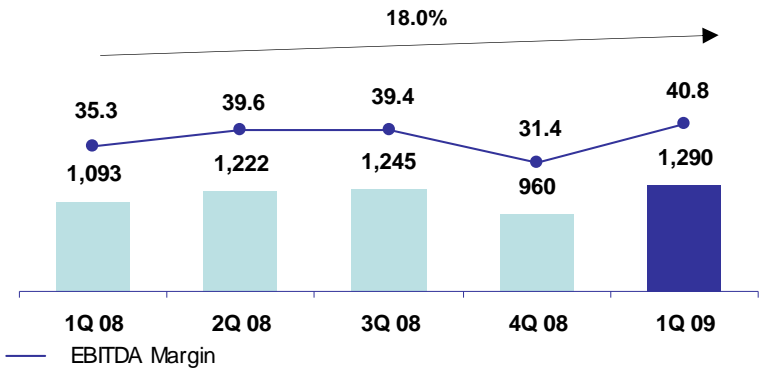
Bezeq Group Financial Performance

Substantial improvements in profitability and cash generation

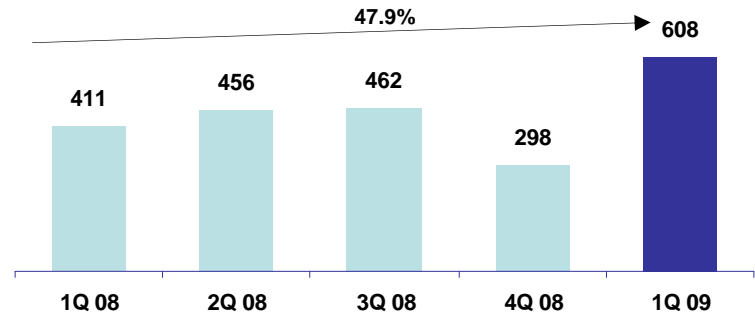
Group Revenue
NIS MM



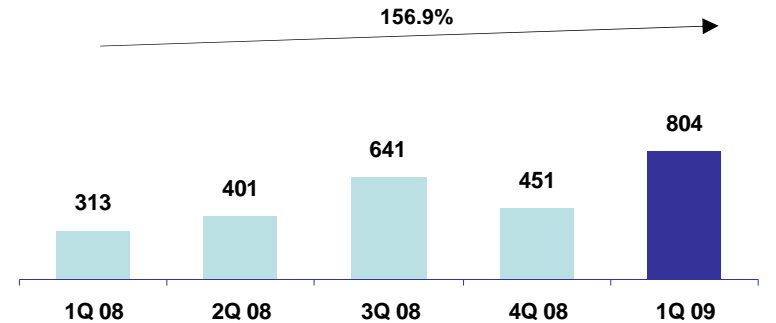
Group EBITDA
NIS MM



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



Group Free Cash Flow ⁽¹⁾
NIS MM



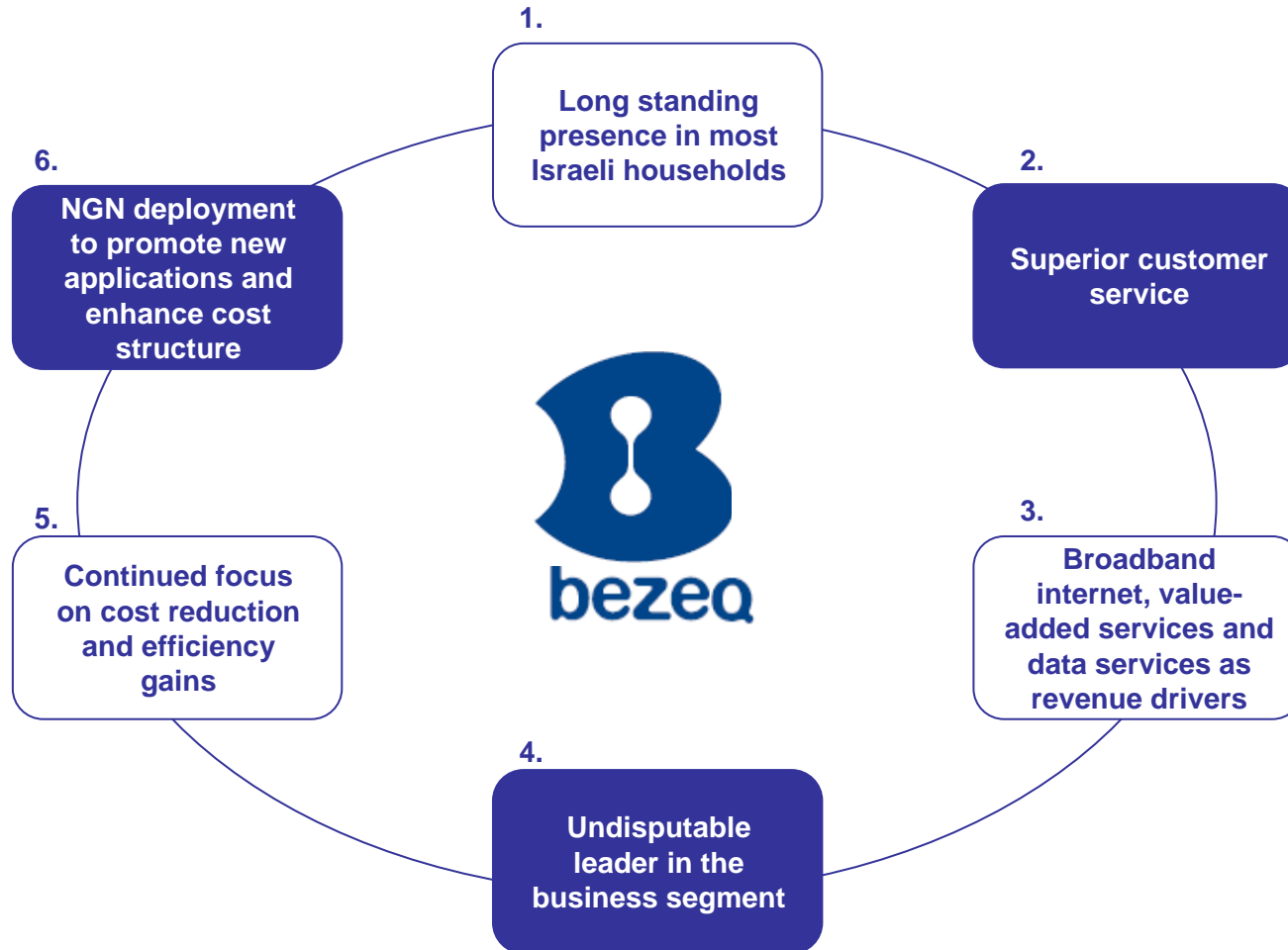
1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



Bezeq Fixed-Line

Fixed-Line Overview

The leading fixed-line services operator in Israel



Fixed-Line 1Q09 Highlights

- ⌚ **EBITDA margin reaches 48.9% – the highest since the company’s privatization in 2005**
 - ⌚ Continued, across-the-board streamlining in operating and net salaries expenses

- ⌚ **Growth in revenue from internet, data & transmission services continues to partially offset telephony revenue erosion**
 - ⌚ Stable ADSL ARPU vs. 1Q08 and slightly higher than 4Q08, driven by bandwidth upgrades and sales of wireless home networks
 - ⌚ Increased sales from new initiatives such as b144, BGAMES, and value-added services
 - ⌚ Continued loss of access lines drives normalized revenue-based market share down to 80.7% in the residential sector and to 86.6% in the business sector (as per MOC data from Feb 2009)

- ⌚ **NGN investment grows as Bezeq progresses with operational deployment and customer conversion**

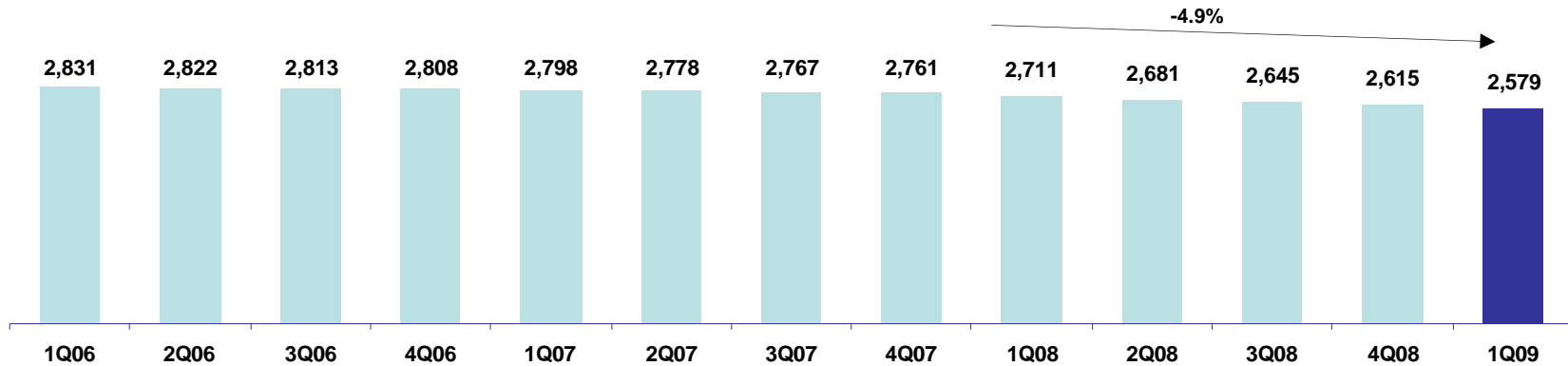


Domestic Telephony KPIs

Continued residential segment lines loss and ARPL erosion

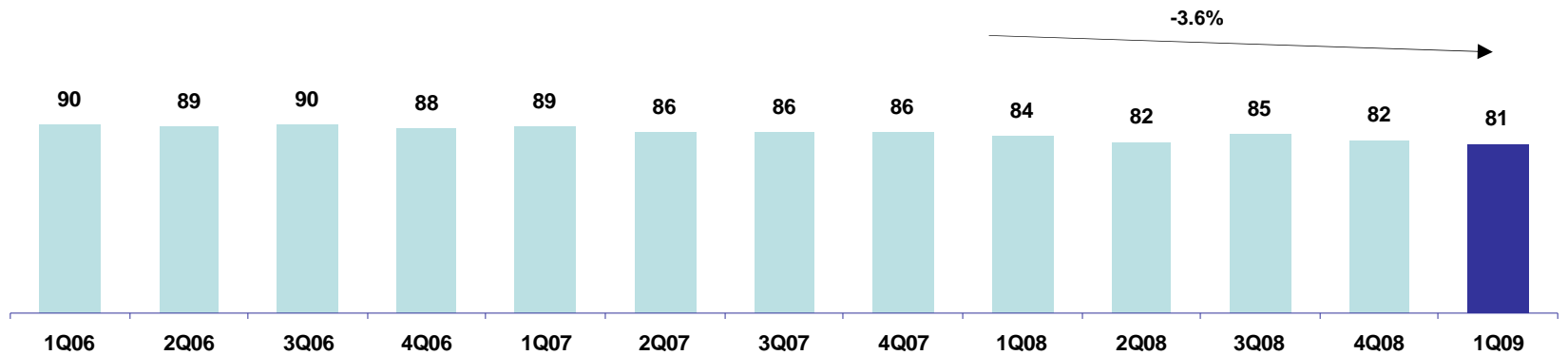
Access Lines

'000



ARPL⁽¹⁾

NIS/Month



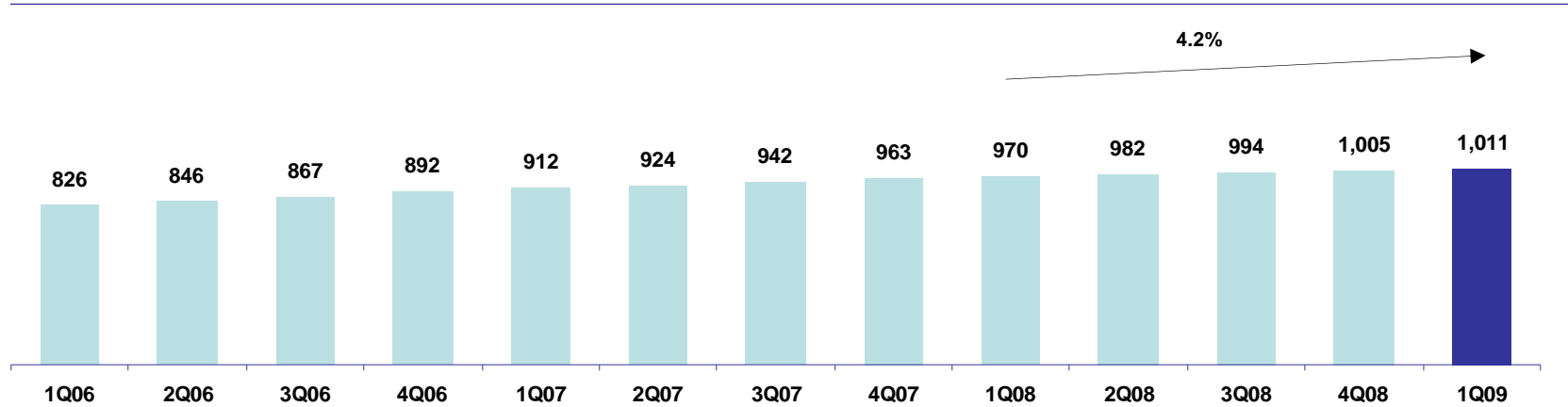
1. Not including revenues from data communications and transmission services, internet services, services to communications providers, and contract and other work.



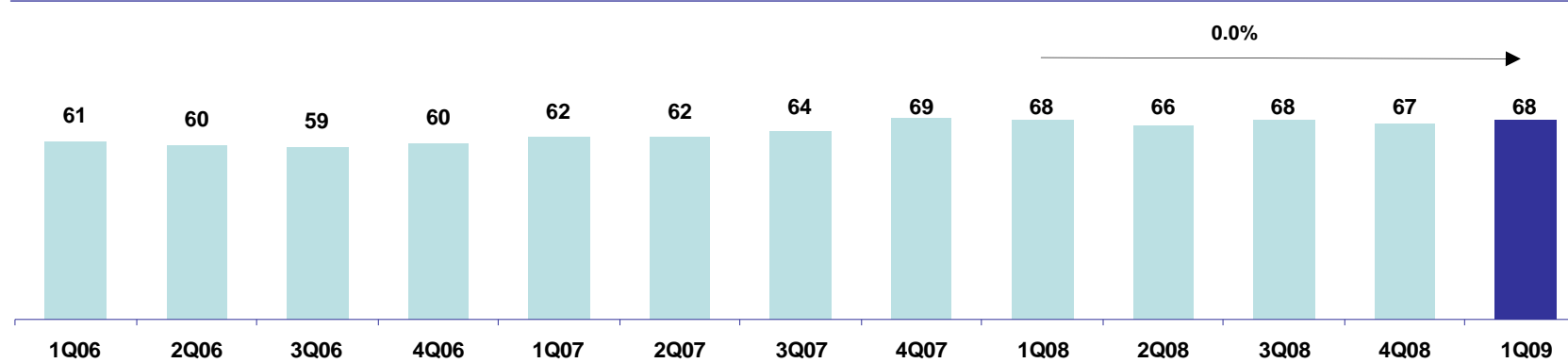
Broadband KPIs

Slower ADSL lines growth combined with stable ARPU

ADSL Lines
'000



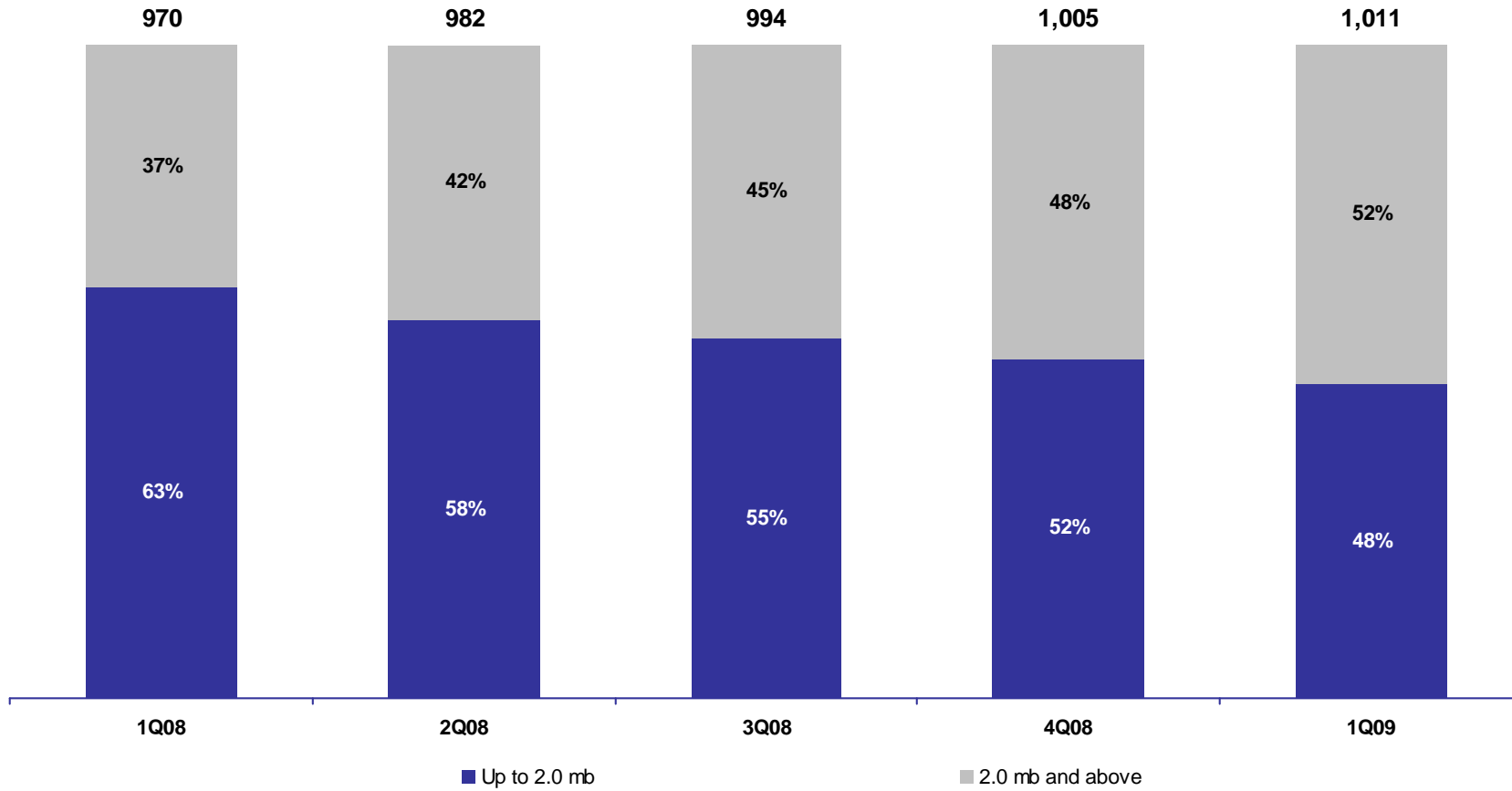
ARPU
NIS/Month



Broadband KPIs

Bandwidth upgrade momentum supporting ARPU resilience

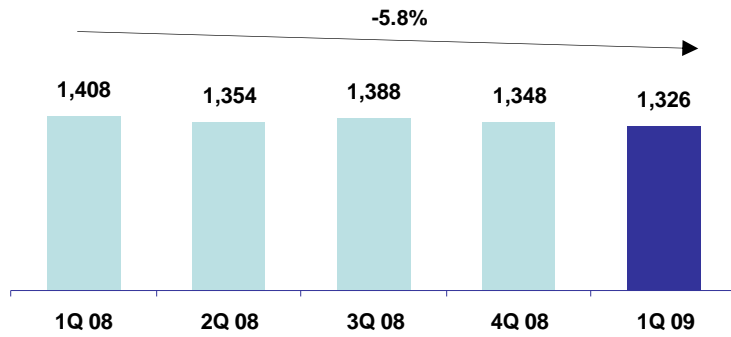
Broadband Subscribers Split by Bandwidth
'000



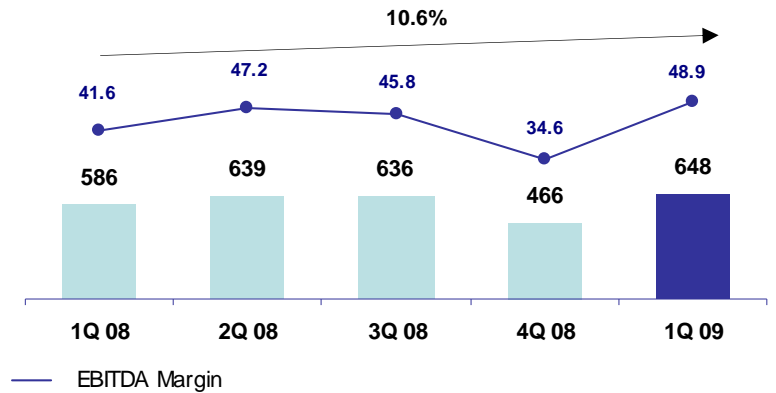
Fixed-Line Financial Performance

Record EBITDA level and margin despite anticipated revenue decline; increased capex investments phase

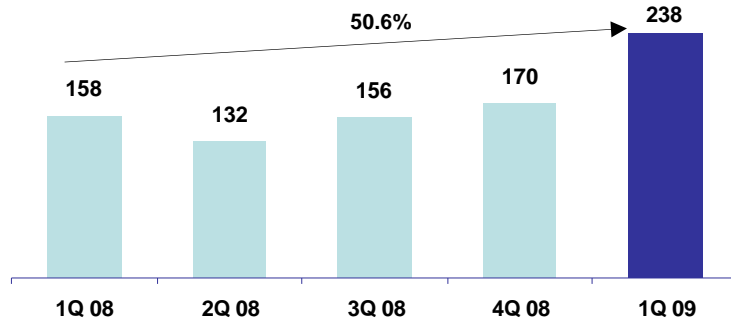
Fixed-Line Revenue
NIS MM



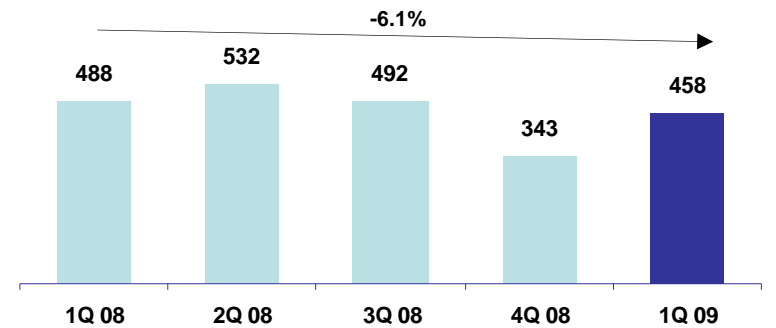
Fixed-Line EBITDA
NIS MM



Fixed-Line Gross Capex
NIS MM



Fixed-Line EBITDA less Net Capex
NIS MM

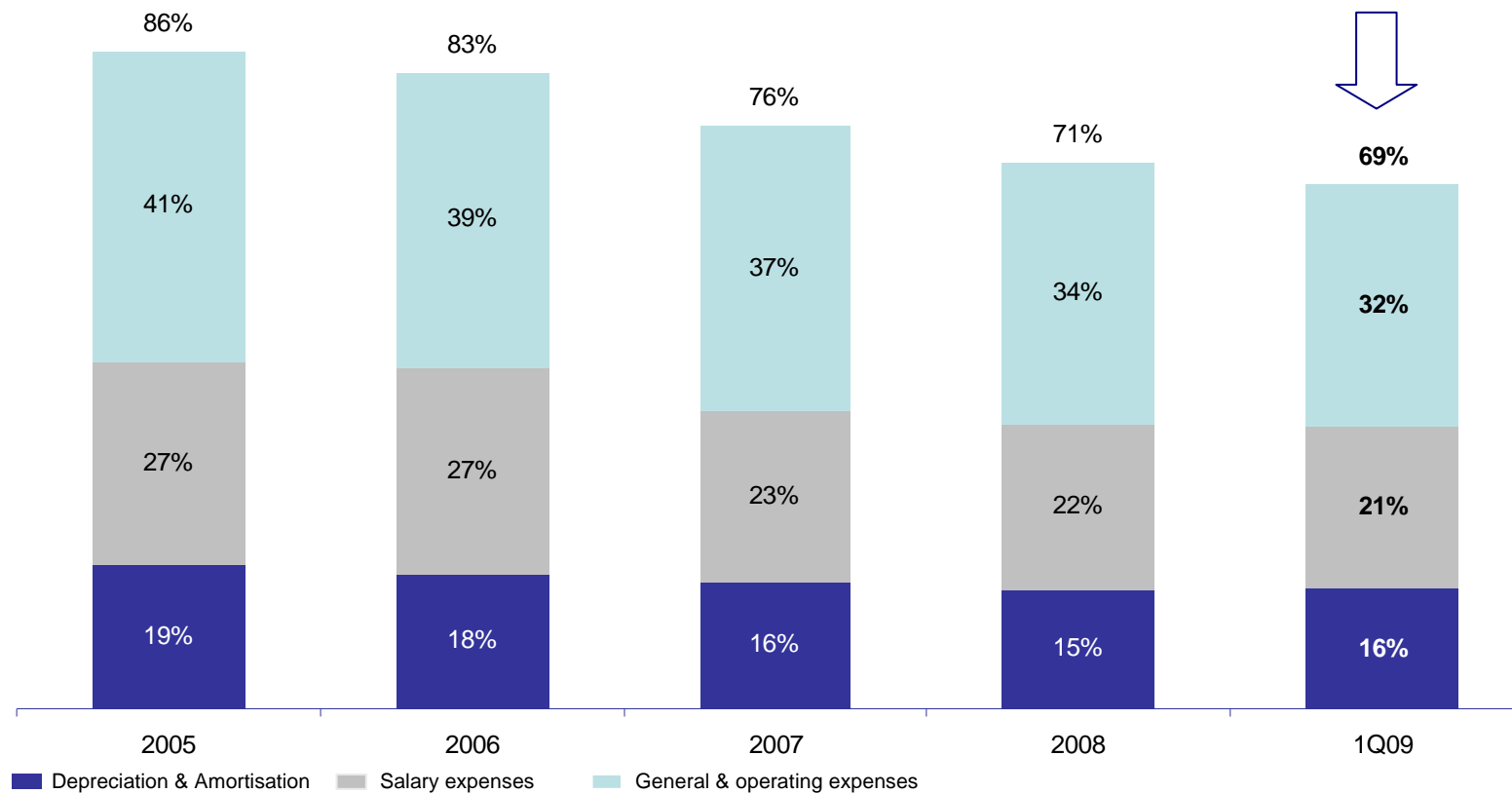


Cost Structure Development

Further reduction of the cost base delivers higher profitability

Cost Structure⁽¹⁾

% of revenues



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



Bezeq
International

Bezeq International Overview

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



Bezeq International 1Q09 Highlights

- ⌚ **Growth in revenues (+3%) outpaced by operating profit (+10%), EBITDA (+7%), and net profit (+6%)**
 - ⌚ Higher sales of core services including broadband ISP and enterprise communications solutions
 - ⌚ Continued focus on cost control drives improvement in EBITDA margin to 24.6% vs. 23.8% in 1Q08
 - ⌚ Profitability improvement despite the 5% decline in the international long-distance communications segment in 1Q09 (according to MoC data)

- ⌚ **Continues to lead the highly competitive ISP segment with 35% market share**
 - ⌚ Growth in core ISP business driven by increase in broadband customer base as well as bandwidth upgrades

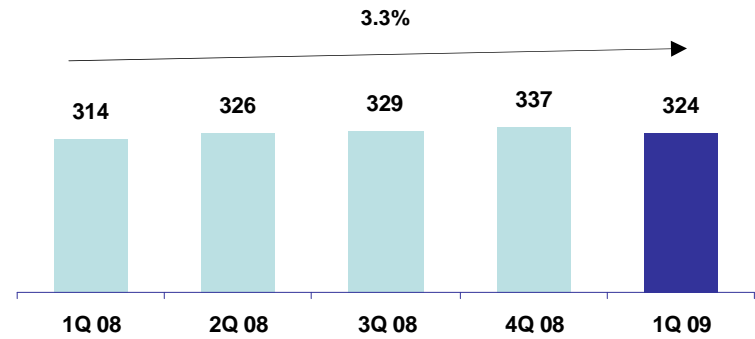
- ⌚ **Working capital improvements yield record operating and free cash flows**



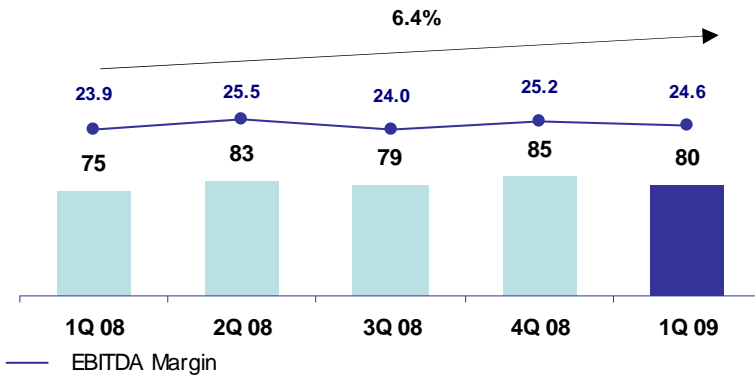
Bezeq International Financial Performance

Solid revenue growth accompanied by stronger gains in EBITDA and cash flow generation

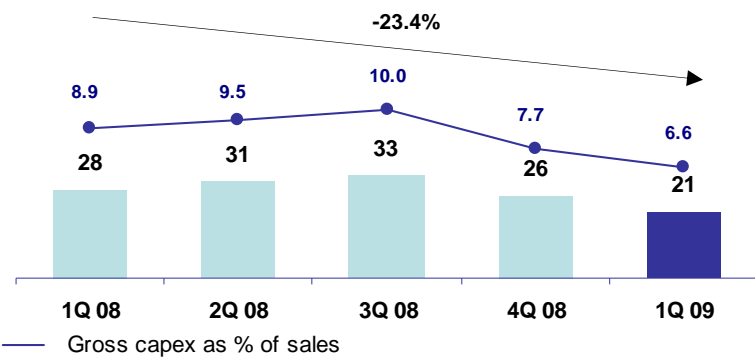
Bezeq International Revenue
NIS MM



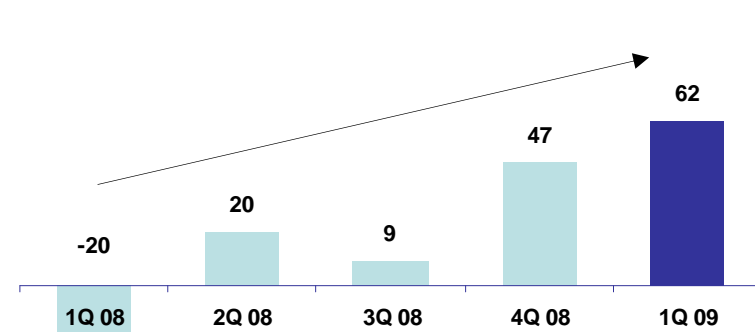
Bezeq International EBITDA
NIS MM



Bezeq International Gross Capex
NIS MM



Bezeq International Free Cash Flow ⁽¹⁾
NIS MM



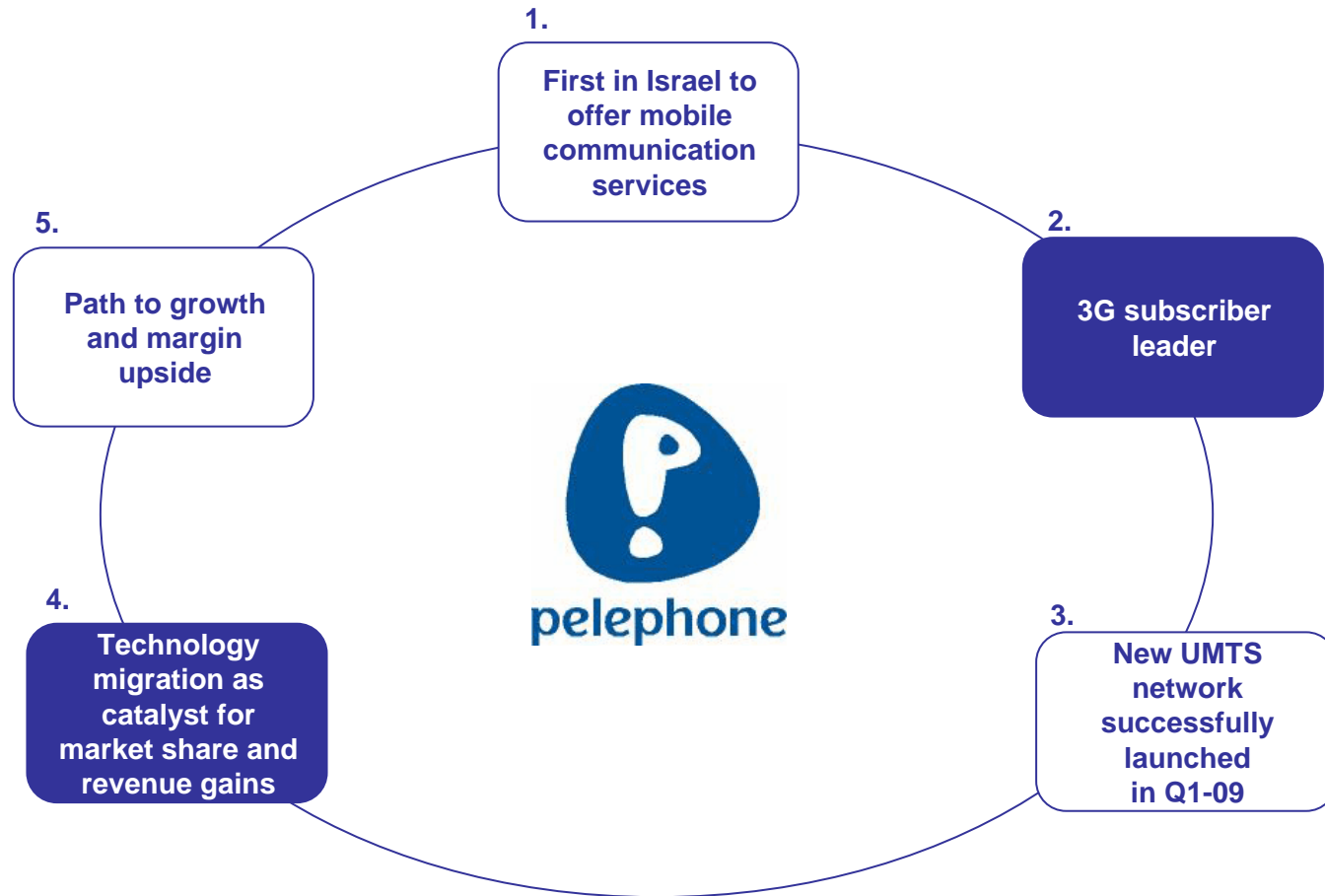
1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



pelephone

Pelephone Overview

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



Pelephone 1Q09 Highlights

- ‡ **Successful commercial launch of the new HSPA network in February 2009**
 - ‡ Over 200,000 subscribers in the new network as of late May 2009

- ‡ **Record revenues at NIS 1,265M, up 7.8% YoY**
 - ‡ Strong sales of advanced handsets from manufacturers previously unavailable to Pelephone's subscribers (e.g., Nokia, Sony-Ericsson, Blackberry)
 - ‡ Continued increase in uptake of data, content and VAS services

- ‡ **EBITDA margin reaches 34.9%, while FCF grows by 47% despite similar increase in capex**
 - ‡ Lower subscriber acquisition costs
 - ‡ Decline in positions & salaries vs. 1Q08
 - ‡ Increase in opex such as marketing, site maintenance, and content vs. 1Q08
 - ‡ Stronger operating cash flows offset higher capex vs. 1Q08, yielding substantial FCF gains

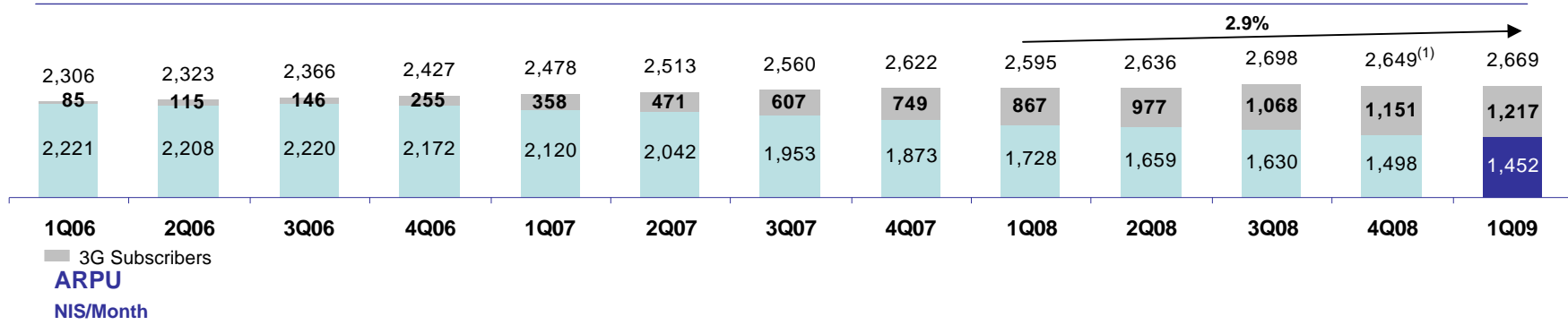


Pelephone KPIs

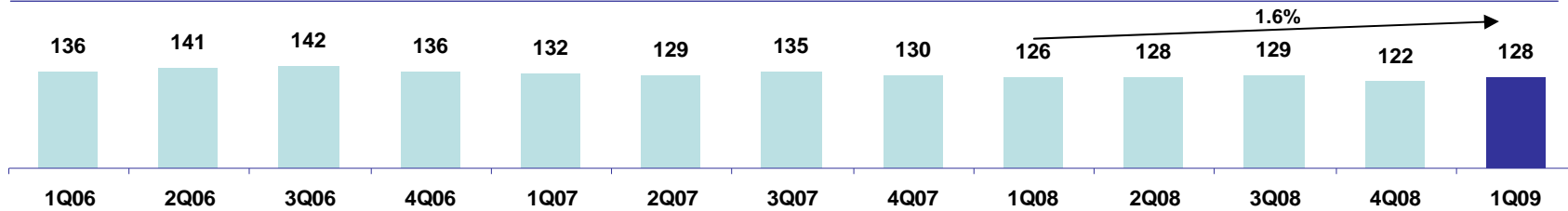
20K net subscriber additions; continued growth in usage of data and VAS

Subscribers

'000

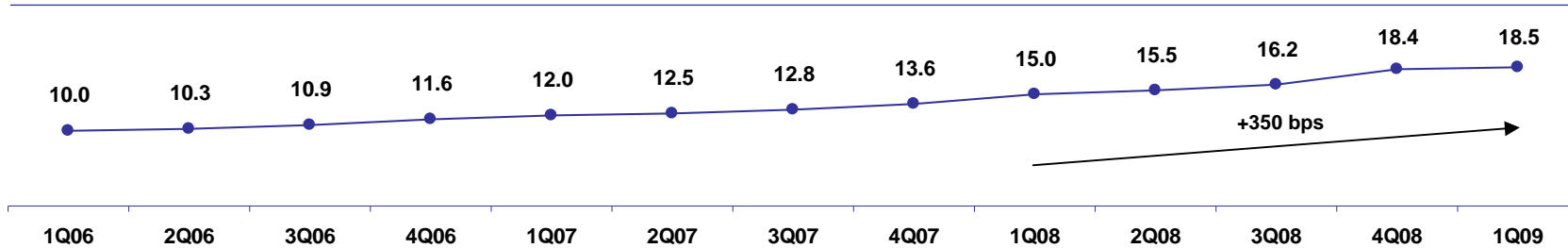


NIS/Month



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

%



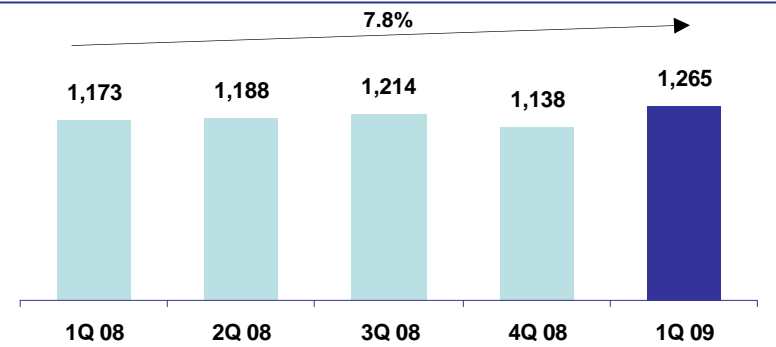
1. Including re-counting of 92K subscribers who only receive SMS
 2. Includes telephony and data services but excludes sale of equipments



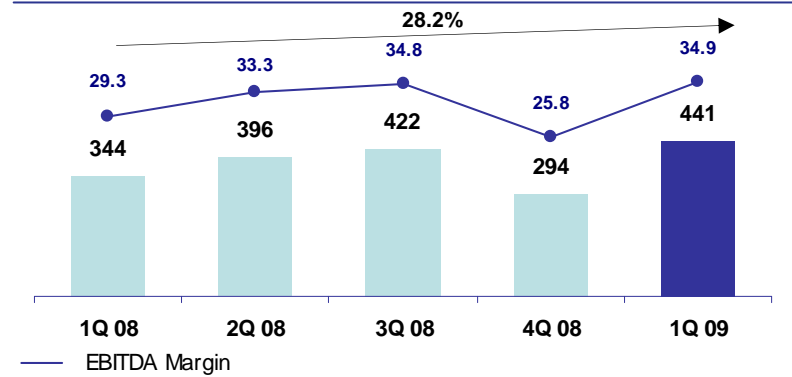
Pelephone Financial Performance

Substantial gains in revenues, EBITDA (34.9% margin), and free cash flow

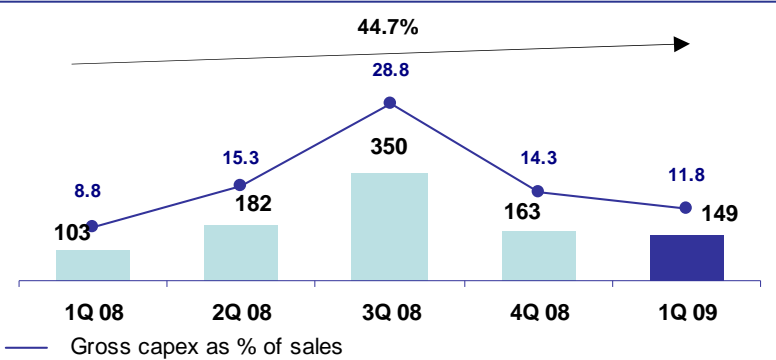
Pelephone Revenue
NIS MM



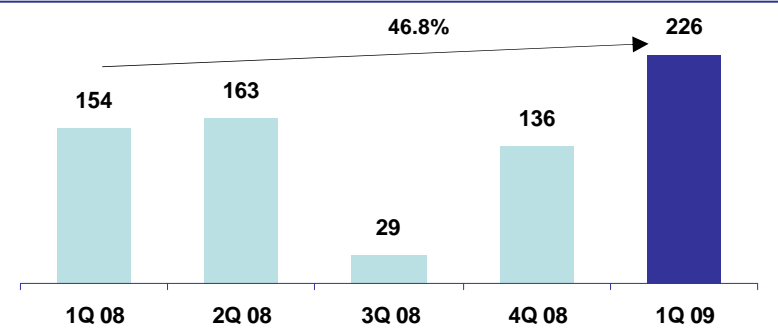
Pelephone EBITDA
NIS MM



Pelephone Gross Capex
NIS MM



Pelephone Free Cash Flow (1)
NIS MM

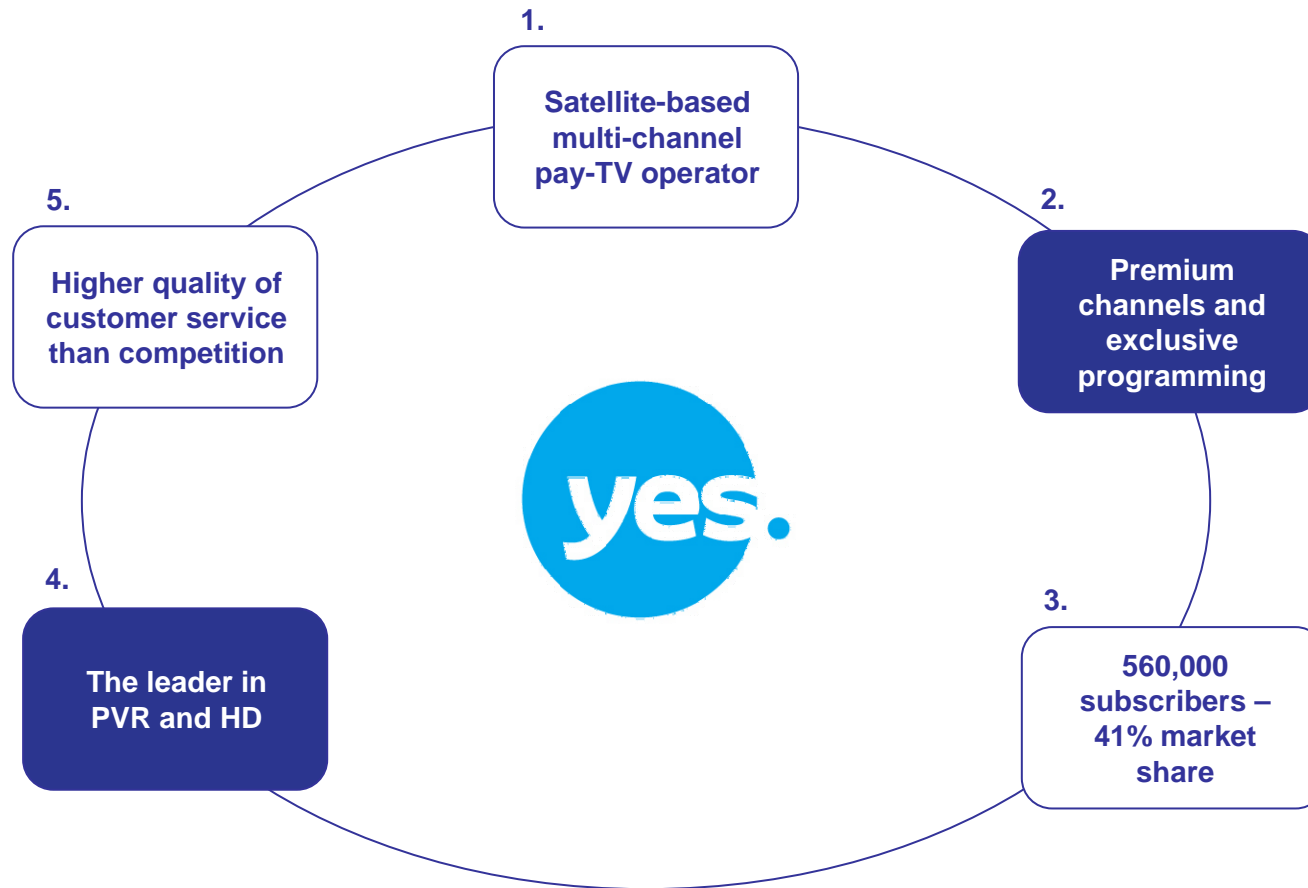


1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



yes Overview

The premium pay-TV operator in Israel



yes 1Q09 Highlights

! **Dramatic profitability improvements**

- ! Record operating profit, supported by ongoing cost reduction measures
- ! EBITDA margin at 31.9% remains among the highest in the pay-TV industry globally
- ! Essentially breakeven on a net profit basis
 - ! When excluding financial costs to shareholders, net profit was NIS 40 million vs. a net loss of NIS 14 million in 1Q08

! **Record revenue driven by 2% YoY subscriber growth despite operating in highly penetrated market**

- ! Higher sales of advanced content services, YESmax and HD services
- ! ARPU down 1.3% to NIS 228 vs. 1Q08

! **Free cash flow grows to NIS 29 million vs. NIS 5 million in 1Q08**

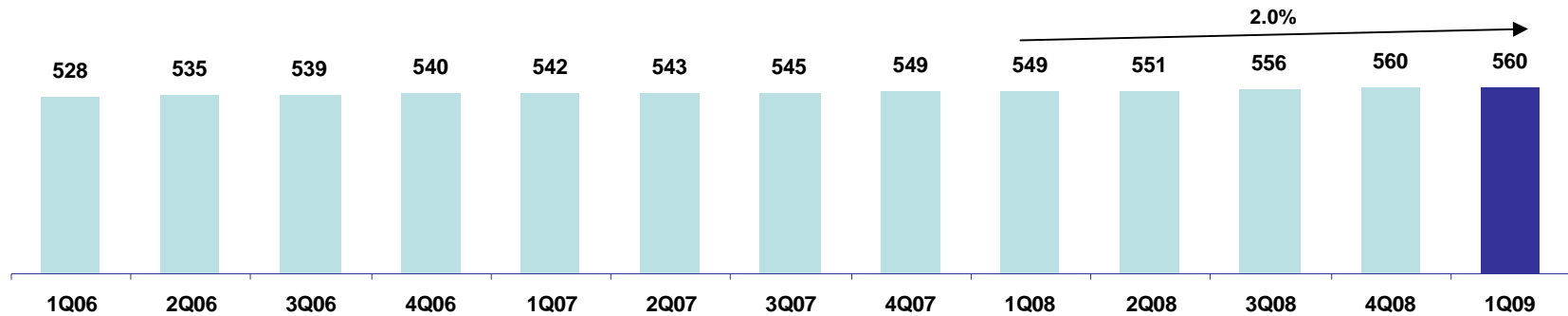


yes KPIs

Continued subscriber growth in a highly penetrated market; slight YoY ARPU decline but sequential increase

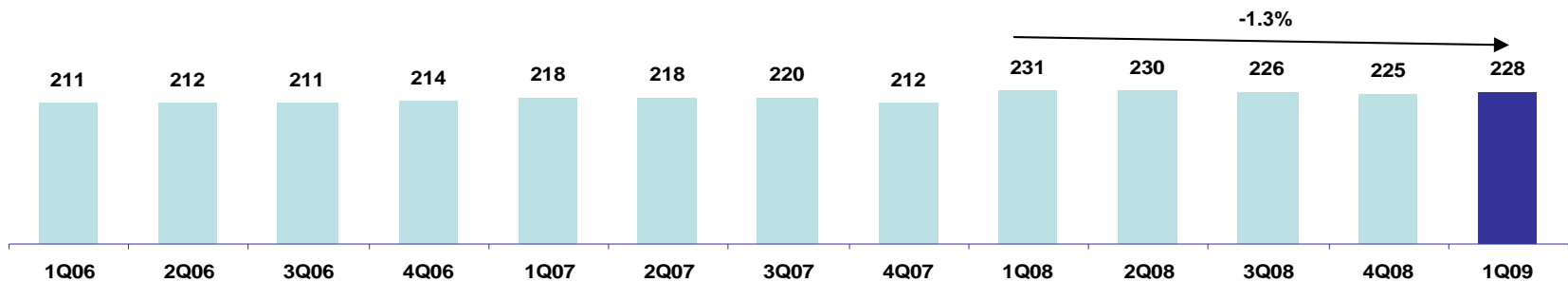
Subscribers

'000, end of period



ARPU

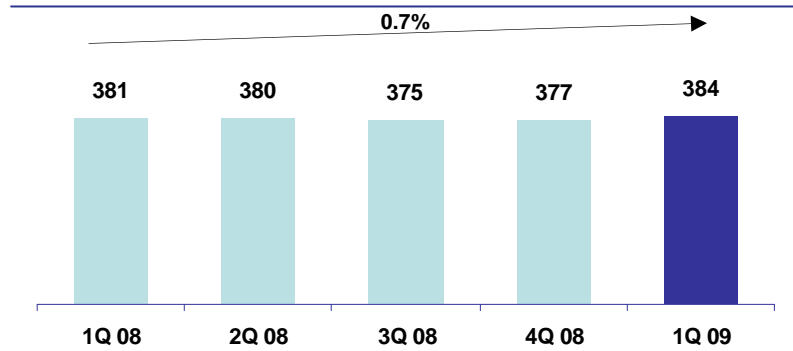
NIS/Month, avg per qtr



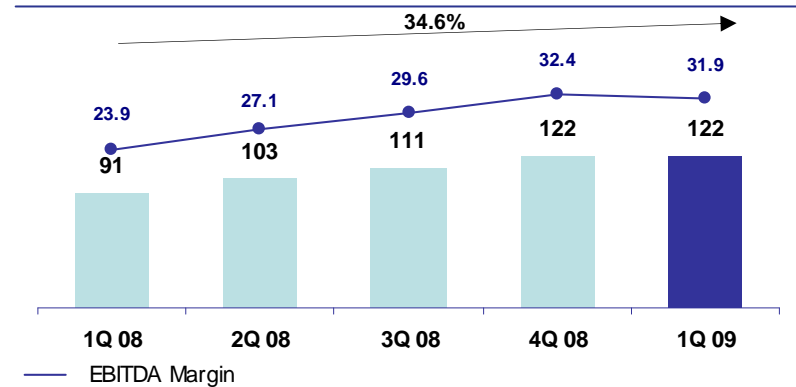
yes Financial Performance

Record revenues and sustained solid EBITDA performance

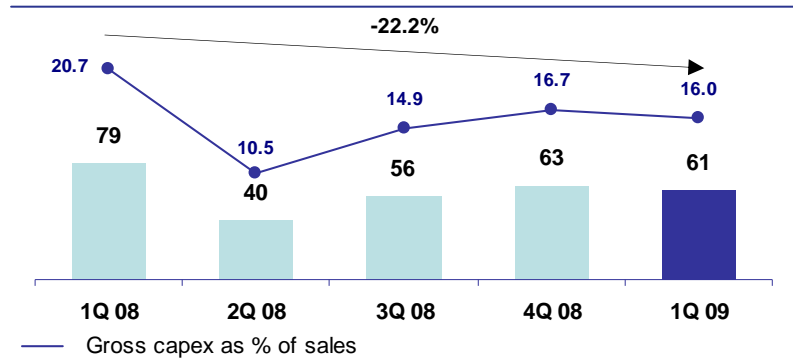
yes Revenue
NIS MM



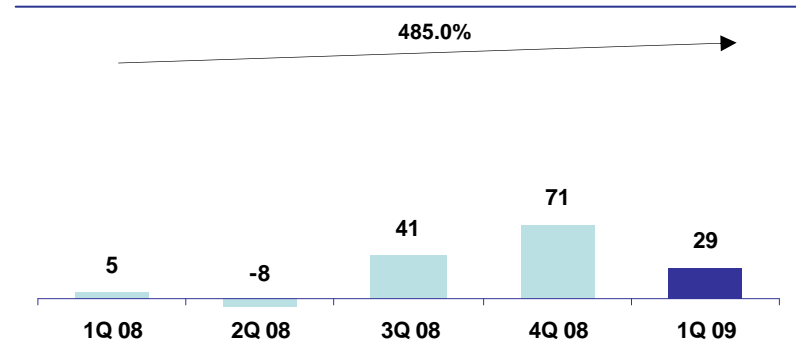
yes EBITDA
NIS MM



yes Gross Capex
NIS MM



yes Free Cash Flow ⁽¹⁾
NIS MM



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



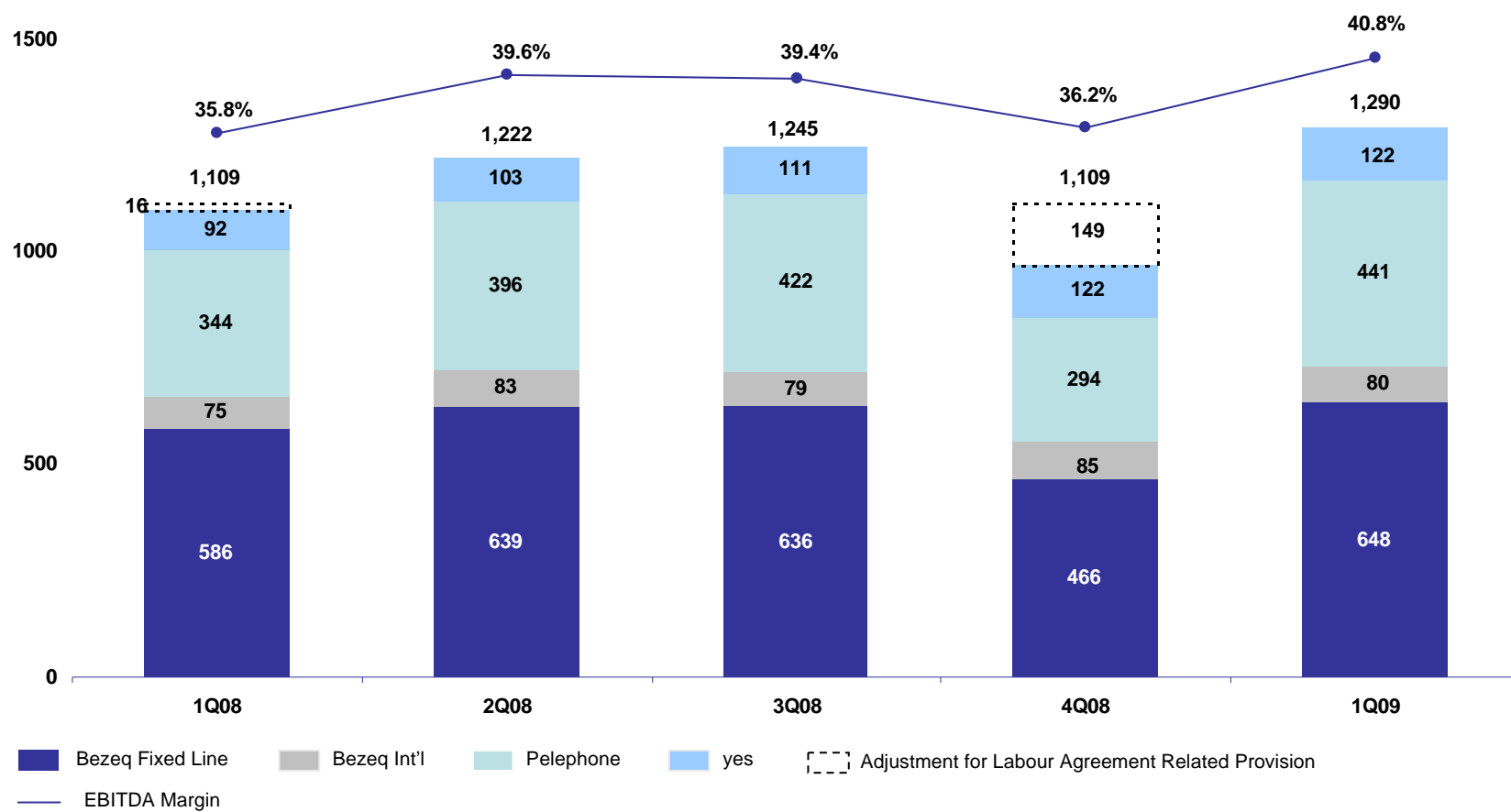


Group Financial Review

EBITDA Development

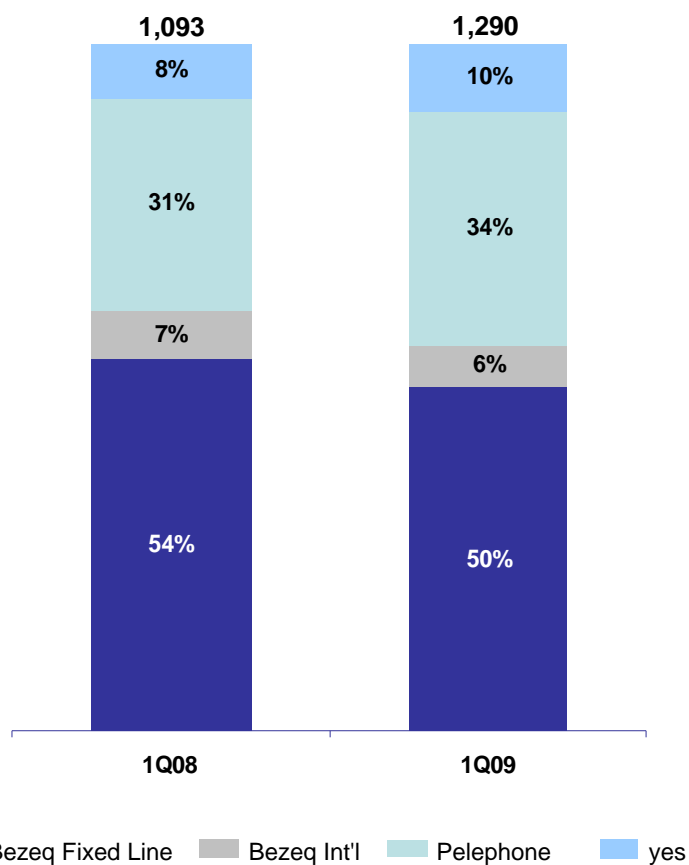
Almost NIS 200 million EBITDA expansion vs. 1Q08

Group EBITDA
NIS MM



EBITDA Mix and EBITDA Margins

Subsidiaries' Contribution to Consolidated EBITDA
NIS MM



EBITDA Margin per Division

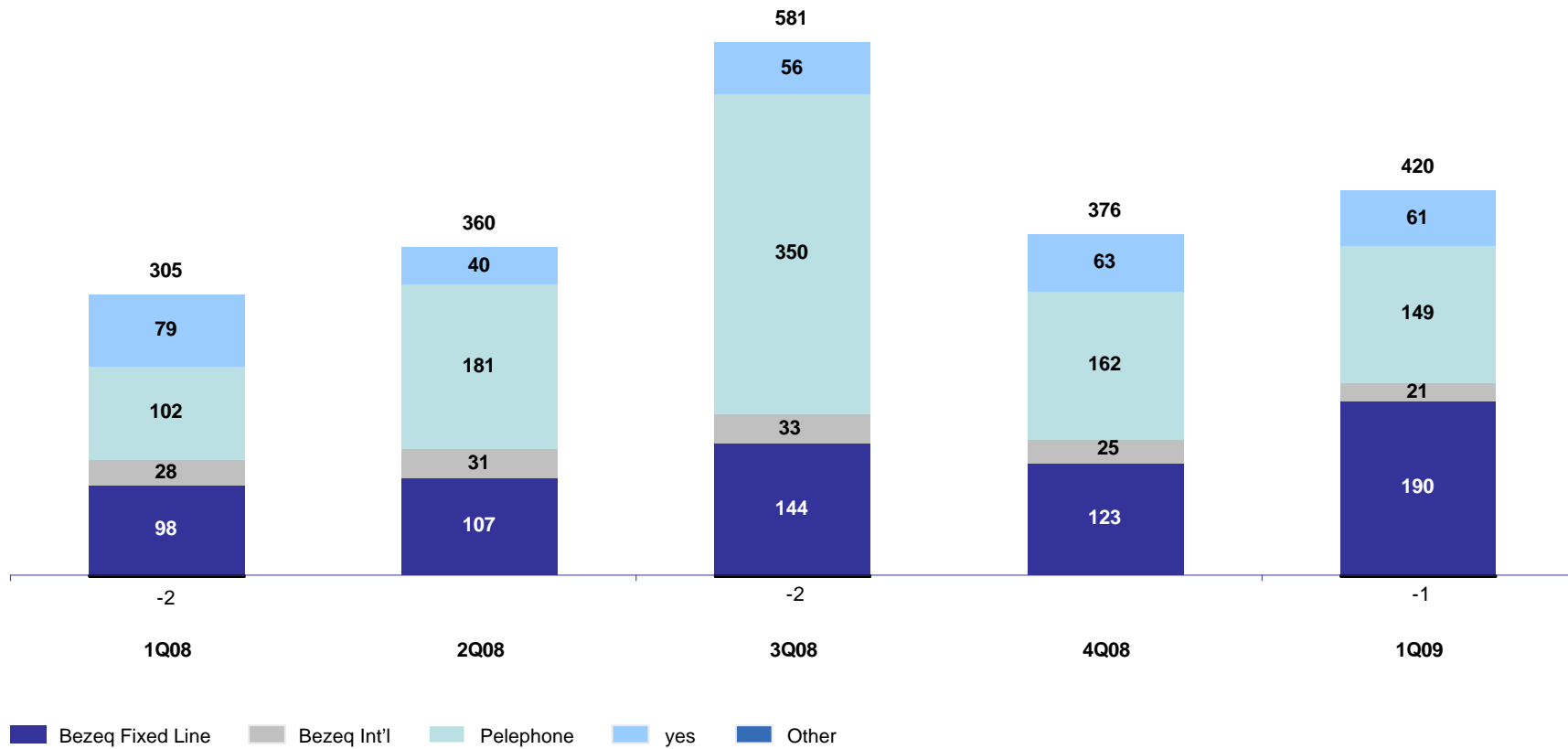
	1Q08	1Q09	Change (p.p.)
Bezeq Fixed Line	41.6%	48.9%	+7.3 p.p.
Bezeq International	23.9%	24.6%	+0.7 p.p.
Pelephone	29.3%	34.9%	+5.6 p.p.
yes	23.9%	31.9%	+8.0 p.p.
Bezeq Group	35.3%	40.8%	+5.5 p.p.



Capex Development

Net Capex increase vs. 1Q08 reflects ongoing deployment of NGN network and roll-out of HSPA network

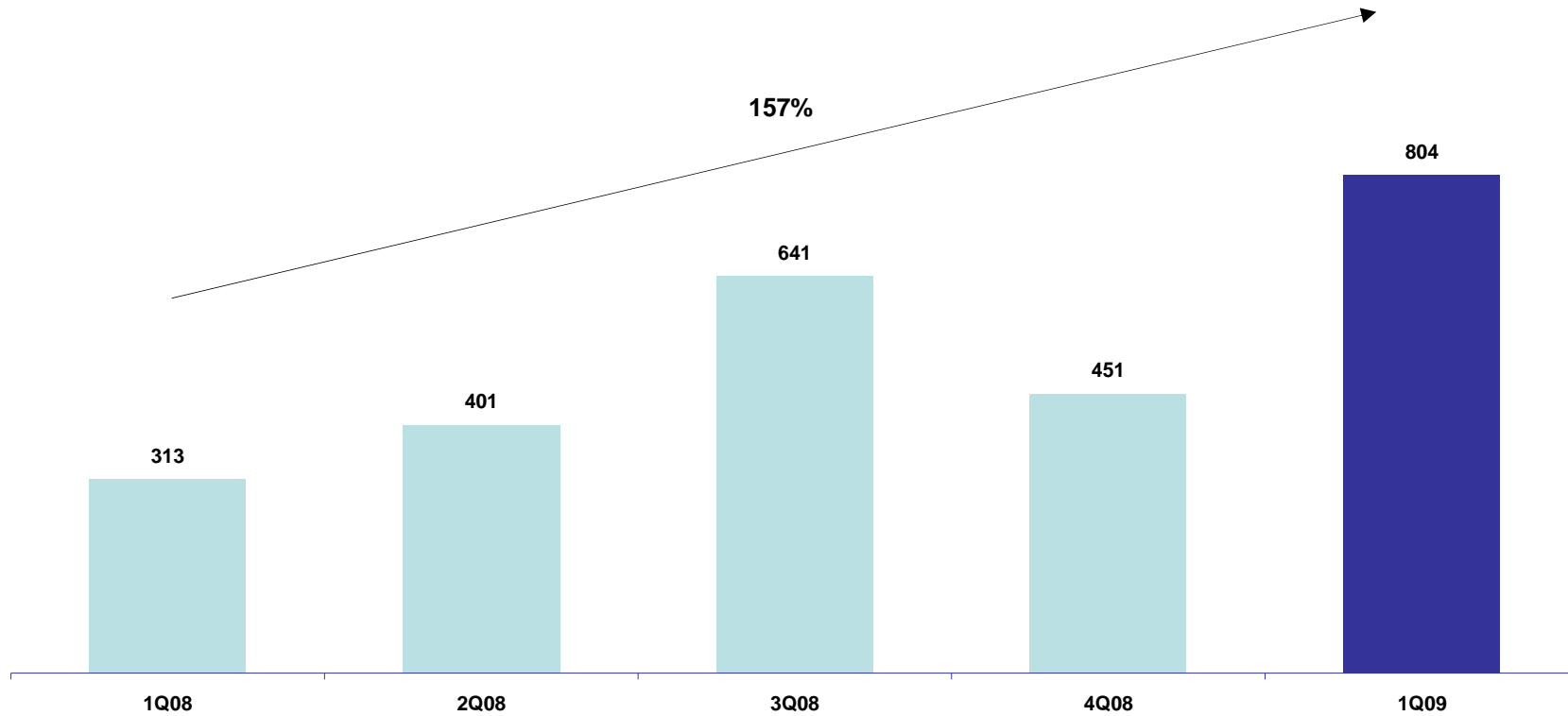
Group Net Capex Development
NIS MM



Free Cash Flow Development

Record cash flow generation driven by EBITDA performance and working capital improvements, and despite ongoing strategic network investments

Group Free Cash Flow ⁽¹⁾
NIS MM



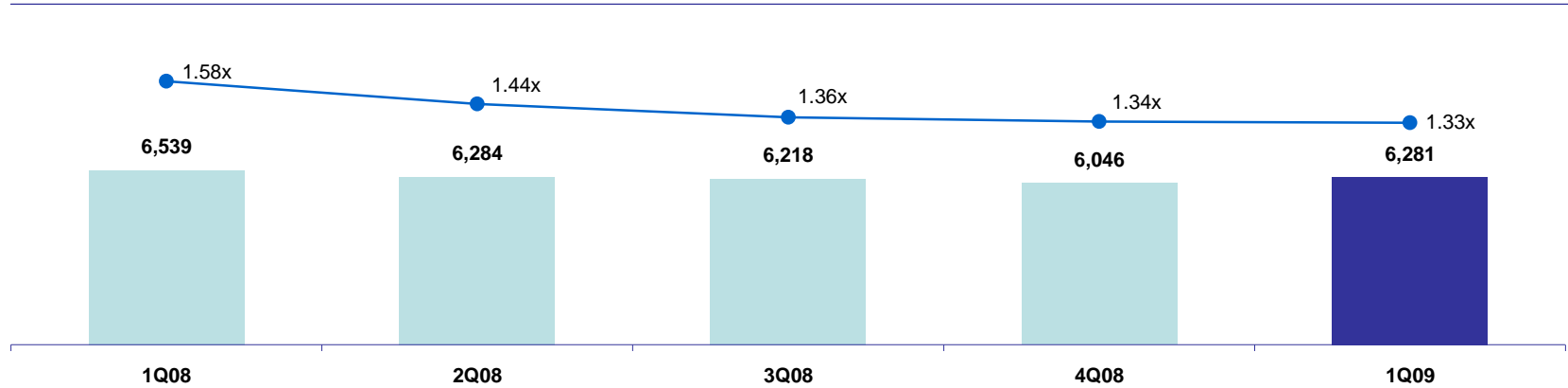
1. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received

Group Financial Profile

Strong financial profile with relatively low leverage

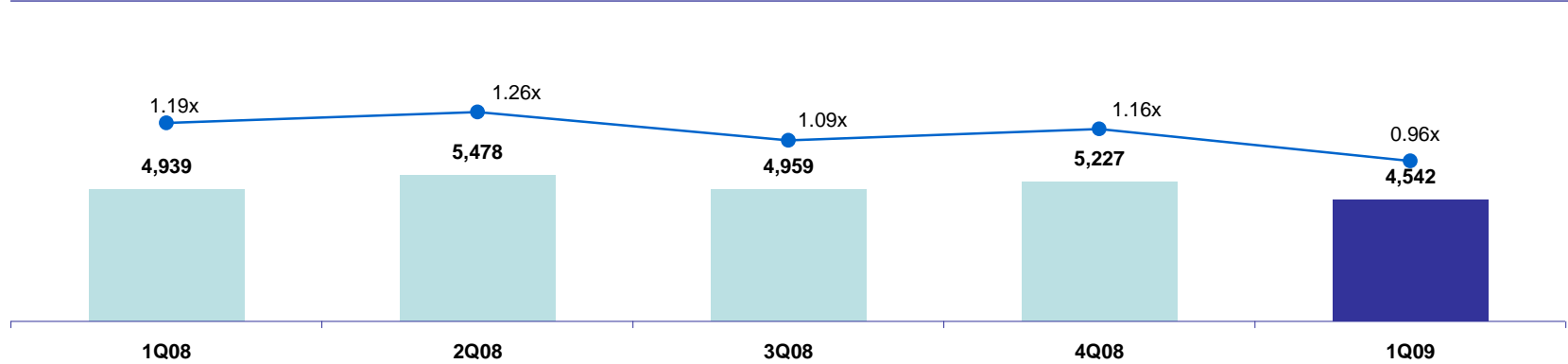
Group Gross Debt
NIS MM

Gross Debt / LTM EBITDA



Group Net Debt
NIS MM

Net Debt / LTM EBITDA





Thank You.

For additional information,
please visit our website:

www.bezeq.co.il