



## **BEZEQ REPORTS FOURTH QUARTER AND FULL YEAR 2008 FINANCIAL RESULTS**

***Full year 2008 net profit attributable to shareholders increased 22.3% year-over-year to a record NIS 1.63 billion, on record revenues of NIS 12.41 billion***

***Full year 2008 EBITDA increased 9% year-over-year to a record NIS 4.52 billion***

***Board of Directors recommends distribution of a cash dividend to shareholders of NIS 792 million***

**Tel Aviv, Israel – March 24, 2009** – Bezeq The Israel Telecommunication Corp., Limited (TASE: BEZQ), Israel's leading telecommunications provider, announced today its financial results for the fourth quarter and full year 2008. Details regarding today's investor conference call and web cast are included later in this press release.

### **Bezeq's Full Year 2008 Financial Highlights:**

- Revenues of NIS 12.41 billion, up 0.1% compared to the prior year period.
- Operating profit totaled NIS 2.82 billion, up 18.6% compared to the prior year period.
- Net profit attributable to shareholders totaled NIS 1.63 billion, up 22.3% compared to the prior year period.
- Earnings per basic and diluted shares amounted to NIS 0.62 and NIS 0.61, respectively, compared to NIS 0.51 and NIS 0.50, respectively, for the prior year period.
- EBITDA totaled NIS 4.52 billion, up 9.0% compared to the prior year period; EBITDA margin was 36.4% compared to 33.4% in prior year period.
- Gross capital expenditures totaled NIS 1.77 billion, up 42.0% year-over-year, primarily due to the roll-out of Pelephone's new HSPA network.
- Free cash flow totaled NIS 1.81 billion, a decrease of only 4.0% year-over-year, despite significantly higher levels of capital expenditures related to Pelephone's HSPA and Bezeq's NGN network infrastructure development activities.
- Dividends paid to shareholders in 2008 totaled NIS 1.51 billion reflecting an effective full year yield of approximately 9.3%.

The Company's Board of Directors recommended the distribution of a cash dividend to shareholders of NIS 792 million, or approximately NIS 0.30 per share. The dividend is payable on May 24<sup>th</sup>, 2009 to shareholders of record as of May 11<sup>th</sup>, 2009.



## Divisional Highlights:

- **Bezeq Fixed-Line:** Fixed-Line full year 2008 segment results were highlighted by an 11.8% year-over-year increase in operating profit to NIS 1.48 billion, and a 3.0% increase in EBITDA to NIS 2.33 billion. Full year 2008 segment EBITDA margin totaled 42.3%. ADSL lines surpassed the one million subscriber milestone during the fourth quarter and full year 2008 ADSL ARPU rose 4.7% to NIS 67. Improved profitability continued to be driven by the positive impact of streamlining and efficiency efforts that are yielding significant benefits to the segment and the Company's key financial performance measures. In addition, Bezeq Fixed-line is continuing to deploy its Next Generation Network (NGN) project which will offer NGN services to a significant number of customers by 2010.
- **Pelephone:** Pelephone's mobile operations delivered double-digit full year growth in operating profit and net profit, as revenues rose 0.6% to NIS 4.71 billion. Full year 2008 segment EBITDA increased 13.5% to a record NIS 1.46 billion, yielding an EBITDA margin of 30.9%. Pelephone continued its market leadership in 3G subscribers with 1.15 million total 3G subscribers as of December 31, 2008, and over 1.25 million currently, including 100,000 subscribers on its new HSPA network, successfully launched in January 2009. The HSPA network is central to Pelephone's commitment to access higher value segments of the mobile communications market.
- **Bezeq International:** Full year operating profit, net profit and EBITDA all posted double-digit year-over-year percentage performance gains. Full year revenues totaled NIS 1.31 billion driven by higher sales of core services including broadband Internet, outgoing international calls, as well as the continued strength in demand for enterprise integration solutions. Bezeq International's full year 2008 free cash flow improved to a positive NIS 55.6 million compared to a negative NIS 6.9 million for the full year 2007. Bezeq International is the market leader in both of its core businesses, Internet services and International direct dialing (IDD).
- **yes:** Multi-channel pay-TV full year revenue increased 6.9% year-over-year to a record NIS 1.51 billion, driven by a 5.1% improvement in ARPU to NIS 228 and a 2.0% increase in subscribers to 560,000. Full year 2008 EBITDA totaled a record NIS 427 million, up 29.8% year-over-year, reflecting an EBITDA margin of 28.2%; and full year 2008 free cash flow increased to NIS 109 million as compared to a negative NIS 5 million in the full year 2007.

Shlomo Rodav, Chairman of the Board of Bezeq, stated, "Bezeq's excellent performance across all key financial metrics in the full year 2008 reflects the balance provided by Bezeq's strategic market position as Israel's leading communications solutions provider to consumer and business customers. This included record revenues, as well as healthy year-over-year growth in Bezeq's operating profit, net profit and EBITDA profitability measures, all of which turned in record levels for 2008.

"Our ability to deliver the most comprehensive portfolio of communications offerings was clear as Bezeq extended its market leadership in key growth areas across our business segments. In order to enhance our position in the cellular market, in January 2009 Pelephone successfully launched its new HSPA cellular network with full nationwide coverage, and already has 100,000 customers on its new network. The new HSPA network provides a stronger competitive offering for upgrading the existing customer base and acquiring new consumer as well as business customers while providing new value added mobile services revenues streams, multi-language support and roaming coverage in over 200 countries around the world. We are also continuing with the modular deployment of the Company's Next Generation Network (NGN) which is



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expected to serve a significant number of customers in 2010. Overall, we continue to work within the current, and evolving, regulatory environment to deliver our customers high value, cost effective solutions to meet their diverse personal and business needs.

“Our strategic and financial achievements in 2008 supported our ability to continue to return value to our shareholders in the form of cash dividends. With NIS 1.51 billion in dividends paid to shareholders in 2008, and our announcement today of the Board of Directors’ recommendation of a NIS 792 million cash dividend, we are continuing to deliver shareholder value within a challenging global economic environment, which stands as a testament to the strength of our business,” concluded Mr. Rodav.

Alan Gelman, Chief Financial Officer and Deputy CEO of Bezeq, commented, “Bezeq’s impressive 22.3% increase in full year 2008 net profit attributed to Bezeq shareholders reflects improved profitability across all our business segments as well as the success of our efficiency measures. Stable revenues and our success on the cost efficiency front was clear as Bezeq’s full year 2008 operating and general expenses declined 6.9% year-over-year to NIS 5.44 billion primarily as a result of a decline in expenses across all of our principal business segments.

“It is important to note that during the fourth quarter of 2008 the Company recorded a previously announced charge of NIS 177 million associated with the early retirement of 245 Bezeq Fixed-Line employees. This provision, which had the effect of lowering the Company’s net profit in the fourth quarter and full year 2008 periods, covers Fixed-Line headcount reductions planned for 2009, under the second phase of our current labor agreement.

“Bezeq’s financial performance in 2008 is even more impressive when taking into account the substantial capital investments Bezeq made during 2008 in terms of the advanced development of communications infrastructures, including establishing Pelephone’s new HSPA mobile network,” concluded Mr. Gelman.



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## Bezeq Consolidated Results

<b>Bezeq (Consolidated)</b>	<b>2008 *</b>	<b>2007 *</b>	<b>Change</b>	<b>Q4 2008 *</b>	<b>Q4 2007 *</b>	<b>Change</b>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	12,407	12,400	0.1%	3,062	3,119	-1.8%
Operating profit	2,817	2,376	18.6%	531	552	-3.8%
EBITDA	4,520	4,145	9.0%	960	999	-3.9%
EBITDA margin	36.4%	33.4%		31.4%	32.0%	
Net profit attributable to shareholders of the company	1,627	1,330	22.3%	298	315	-5.4%
Diluted EPS (NIS)	0.61	0.50	22.0%	0.12	0.12	0.0%
Cash flow from operating activities	3,415	2,947	15.9%	826	674	22.6%
Capex, net	1,622	1,069	51.7%	376	356	5.6%
Free cash flow	1,806	1,881	-4.0%	451	318	41.8%
Net debt/EBITDA (end of period)	1.16	1.25				
Net debt/shareholders' equity (end of period)	1.11	1.14				

\* In Q4-08 a provision for early retirement in the net amount of NIS 165 million was made in relation to the December 2006 labor agreement. In Q4-07 a provision in the net amount of NIS 51 million was recorded in relation to the same labor agreement.

Bezeq's revenues for the full year 2008 were a record NIS 12.41 billion, up 0.1% from NIS 12.40 billion reported for the full year 2007. Revenue growth within the Pelephone cellular and yes multi-channel television segments offset an anticipated decrease in the domestic fixed-line communications segment, while continued growth in high speed Internet and data communications services in this segment mitigated the expected decline in revenue associated with fixed-line telephony. Bezeq's revenues for the fourth quarter of 2008 were NIS 3.06 billion, down 1.8% from NIS 3.12 billion reported for the fourth quarter of 2007, primarily related to the reduction in voice revenues due to the timing of the Jewish holidays, lower cellular airtime collected by Bezeq Fixed-Line and paid to the cellular companies as well as increased competition in the fixed-line segment.

Operating profit for the Company increased 18.6% in 2008 to NIS 2.82 billion, up from NIS 2.38 billion in the full year 2007, driven primarily as a result of ongoing cost reduction activities, lower cellular subscriber acquisition cost, and streamlining initiatives in our major operating segments. Fourth quarter 2008 operating profit for the Company decreased 3.8% year-over-year to NIS 531 million, compared to NIS 552 million in the year ago period.

Net profit attributed to Bezeq shareholders for the full year 2008 amounted to NIS 1.63 billion, up 22.3% from a net profit of NIS 1.33 billion for the full year 2007. Net profit attributed to Bezeq shareholders for the fourth quarter of 2008 amounted to NIS 298 million, down 5.4% compared to a net profit of NIS 315 million reported in the fourth quarter of 2007.

The Company's earnings before interest, taxes, depreciation and amortization (EBITDA) for the full year 2008 totaled a record NIS 4.52 billion (36.4% EBITDA margin), up 9.0% as compared to the full year 2007 of NIS 4.15 billion (33.4% EBITDA margin). Fourth quarter 2008 EBITDA for the Company totaled NIS 960 million (31.4% EBITDA margin), a decline of 3.9% compared with the fourth quarter of 2007 (32.0% EBITDA margin).

Fourth quarter 2008 operating profit, net profit and EBITDA were all influenced by the higher provision for early retirement recorded in the fourth quarter of 2008 as compared to the fourth quarter of 2007.

Net capital expenditures for the full year 2008 amounted to NIS 1.62 billion, an increase of 51.7%, primarily related to the deployment of Pelephone's HSPA network, as compared to the NIS 1.07 billion in the full year 2007.



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Free cash flow for the Company totaled NIS 1.81 billion for the full year 2008, a decrease of 4.0% compared to the prior year period, mainly as a result of the anticipated increase in net capital expenditures. Free cash flow for the fourth quarter of 2008 totaled NIS 451 million, an increase of 41.8% compared to the fourth quarter of 2007. The increase in free cash flow was primarily the result of significantly higher cash flows from operations, which were partially offset by the increase in net capital expenditures. The increase in operating cash flow was mainly driven by working capital improvements.

As of December 31, 2008, the Company's net financial debt was NIS 5.23 billion, compared with NIS 5.18 billion as of December 31, 2007.

## Bezeq Fixed-Line Results

<b>Bezeq Fixed-Line</b>	<u>2008 *</u>	<u>2007 *</u>	<u>Change</u>	<u>Q4 2008 *</u>	<u>Q4 2007 *</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	5,498	5,713	-3.8%	1,348	1,453	-7.2%
Operating profit	1,475	1,319	11.8%	257	380	-32.4%
EBITDA	2,327	2,260	3.0%	466	612	-23.9%
EBITDA margin	42.3%	39.6%		34.6%	42.1%	
Capex, net	499	351	42.2%	150	118	27.1%
Number of active subscriber lines at end of period (thousands)	2,615	2,761	-5.3%	2,615	2,761	-5.3%
Average monthly revenue per line (NIS) **	83	87	-4.6%	82	86	-4.7%
Number of outgoing usage minutes (millions)	13,439	14,869	-9.6%	3,154	3,653	-13.7%
Number of incoming usage minutes (millions) ***	6,691	6,411	4.4%	1,648	1,661	-0.8%
Number of ADSL subscribers at end of period (thousands)	1,005	963	4.4%	1,005	963	4.4%
Average monthly revenue per ADSL subscriber (NIS)	67	64	4.7%	67	69	-2.9%

\* In Q4-08 a provision for early retirement in the net amount of NIS 165 million was made in relation to the December 2006 labor agreement. In Q4-07 a provision in the net amount of NIS 51 million was recorded in relation to the same labor agreement.

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

\*\*\* The increase in incoming minutes compared to the corresponding period in 2007 stems from an increase in traffic minutes from domestic carriers in competition with Bezeq.

Like most other regulated incumbents in the world, Bezeq Fixed-Line faces declining market share and revenues from traditional telephony. Against this background, 2008 results highlight Fixed-Line's successful focus on controlling the decrease in voice revenues, increasing other revenue sources, reducing operating costs, and progressing with the NGN infrastructure deployment, which enhances Bezeq's technological preparedness to compete in increasingly converged communications markets, and its ability to improve profitability in the future.

While full year 2008 revenues posted a modest 3.8% decline year-over-year, the Fixed-Line posted significant improvements in operating profit and EBITDA. In 2008, operating costs declined by NIS 371 million (and by NIS 282 million when excluding depreciation and amortization), mainly driven by 11.7% and 7.0% reductions in operating and general expenses and in salaries, respectively, as compared to 2007.



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When adjusted for revenues from cellular airtime collected by Bezeq Fixed-Line and paid to the cellular companies, Fixed-Line's revenues reached NIS 4.6 billion and declined only 1.7% as compared with 2007. This continues to demonstrate the fixed-line business' ability to compensate for the decline in legacy telephony revenues through growing advanced services and solutions offered to the consumer and business markets.

In the fourth quarter of 2008, revenue from fixed-line domestic communications declined 7.2% to NIS 1.35 billion compared to NIS 1.45 billion in the fourth quarter of 2007. The decrease in Fixed-Line revenue was primarily related to a decrease in interconnect fees to the cellular networks and a decrease in the number of telephony access lines, as well as a reduction in call traffic stemming mainly from the timing of the Jewish New Year holidays. Revenues adjusted for cellular airtime collected by the fixed-line business and paid to the cellular companies declined 4.6% and totaled NIS 1.14 billion in the fourth quarter of 2008. The decrease in revenue was moderated mainly by higher levels of revenues generated from subscriber growth in high-speed Internet access services (ADSL) caused by an increase in subscriber numbers and in sales of home networks.

The number of customers subscribing to Bezeq's high-speed Internet service (ADSL) rose 4.4% year-over-year to over 1 million subscribers as of December 31, 2008. Bezeq continued to upgrade its ADSL subscriber base, with 41% of its customers enjoying bandwidths of at least 2.5 MB, as compared to 22% in the prior year period.

The growth in Bezeq's ADSL customer base helped offset a 5.3% decline in total telephony access lines during the same period which totaled 2.62 million as of December 31, 2008. The pace of decline in telephony access lines slowed for the second consecutive quarter to just 30,000 lines during the fourth quarter of 2008, down from a quarterly average of 39,000 lines lost during the first nine months of 2008.

ADSL ARPU increased 4.7% to NIS 67 in 2008 as compared to NIS 64 in 2007. Fixed-line telephony ARPL declined 4.6% in 2008 to NIS 83 as compared to NIS 87 in 2007.

The Fixed-Line segment posted full year 2008 EBITDA of NIS 2.33 billion (42.3% EBITDA margin), up 3.0% from EBITDA of NIS 2.26 billion (39.6% EBITDA margin) in the full year 2007 period. Fourth quarter 2008 Fixed-Line segment EBITDA totaled NIS 466 million (34.6% EBITDA margin), down 23.9% compared to EBITDA of NIS 612 million (42.1% EBITDA margin) in the fourth quarter of 2007. This decline resulted primarily from the higher provision for early retirement recorded in the fourth quarter of 2008 as compared to the fourth quarter of 2007.

During the fourth quarter of 2008 the fixed-line business continued its phased development of its Next Generation Network (NGN) project. The NGN will provide broadband download speeds of up to 50 MB and innovative value-added services, and will allow for a more efficient operating structure.



## Telephone Results

Telephone	2008	2007	Change	Q4 2008	Q4 2007	Change
	(NIS millions)			(NIS millions)		
Revenues	4,713	4,684	0.6%	1,138	1,182	-3.7%
Operating profit	933	805	15.9%	159	133	19.5%
EBITDA	1,456	1,283	13.5%	294	258	14.0%
EBITDA margin	30.9%	27.4%		25.8%	21.8%	
Net profit	682	585	16.6%	128	104	23.1%
Cash flows from operating activities	1,277	1,228	4.0%	298	245	21.6%
Capex, net	795	376	111.4%	162	117	38.5%
Free cash flow	482	852	-43.4%	136	128	6.3%
Number of subscribers at end of period (millions)	2.649	2.622	1.0%	2.649	2.622	1.0%
Average revenue per user (ARPU, NIS)	126	131	-3.8%	122	130	-6.2%
Average monthly minutes of use per subscriber (MOU)	352	354	-0.6%	335	358	-6.4%

Telephone generated double-digit percentage improvements in full year and fourth quarter 2008 operating profit, net profit and EBITDA performance, driven primarily by increased margins on handset sales.

Telephone's active subscribers totaled 2.65 million as of December 31, 2008, an increase of 1.0% year-over-year. As of December 31, 2008 Telephone amended its policy for determining active subscribers. As a result, subscribers that only receive SMS would not be included in the active subscriber base. This resulted in a one-time removal of 92,000 subscribers from the subscriber base as of year-end.

Telephone remains the market leader in Israeli 3G subscribers with a record 1.15 million 3G subscribers as of December 31, 2008, representing 43.5% of all Telephone subscribers. Currently, Telephone has over 1.25 million 3G subscribers, of which 100,000 on its new HSPA network launched in January. Revenues from data, value added and content services constituted 16.3% of Telephone segment revenues for the full year 2008 and a record 18.4% of revenues in the fourth quarter of 2008, compared to 12.7% in the full year 2007 and 13.6% in the fourth quarter of 2007.

Telephone's revenues for the full year 2008 were a record NIS 4.71 billion, rising 0.6% from revenues of NIS 4.68 billion for the full year 2007. Revenues were driven by an increase in the number of subscribers and data services, which were partially offset by an erosion of tariffs for outgoing calls, and a decrease in interconnect fees. In the fourth quarter of 2008, revenues totaled NIS 1.14 billion, a 3.7% decline from revenues of NIS 1.18 billion in the prior year period, mainly as a result of lower sales of CDMA handsets in advance of the January, 2009 HSPA network launch.

2008 net profit for Telephone totaled NIS 682 million, an increase of 16.6% compared to NIS 585 million in the full year 2007. Fourth quarter 2008 net profit totaled NIS 128 million, an increase of 23.1% from the NIS 104 million in the fourth quarter of 2007. Net profit benefited from lower handset costs related to the weaker dollar as well as lower marketing expenses before the launch of the HSPA network.

Telephone posted full year 2008 EBITDA of NIS 1.46 billion (30.9% EBITDA margin), an increase of 13.5% compared to NIS 1.28 billion (27.4% EBITDA margin) for the full year 2007. For the fourth quarter of 2008 Telephone posted EBITDA of NIS 294 million (25.8% EBITDA margin), up 14.0% compared to NIS 258 million (21.8% EBITDA margin) in the fourth quarter of 2007.



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During the fourth quarter of 2008 Pelephone completed a significant portion of the development and deployment activities for its new HSPA network infrastructure which was successfully launched as scheduled in January of 2009. During 2008, Pelephone invested NIS 616 million relating to the rollout of this network. The HSPA network initiative is central to Pelephone's commitment to access higher value segments of the mobile communications market.

### Bezeq International Results

<b>Bezeq International</b>	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Q4 2008</u>	<u>Q4 2007</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,306	1,304	0.2%	337	334	0.9%
Operating profit	242	204	18.6%	65	45	44.4%
EBITDA	322	291	10.7%	85	66	28.8%
EBITDA margin	24.7%	22.3%		25.2%	19.8%	
Net profit	178	153	16.3%	46	38	21.1%
Cash flows from operating activities	163	93	75.3%	72	30	140.0%
Capex, net	117	100	17.0%	25	34	-26.5%
Free cash flow	56	(7)	<i>n.m.</i>	47	(4)	<i>n.m.</i>

Bezeq International, Israel's leading supplier of Internet services and direct-dial international calls, posted 2008 revenues of NIS 1.31 billion, up 0.2% compared to NIS 1.30 billion in 2007. Revenues were driven by increased sales of higher margin services such as outbound international calls, following an increase in the number of outbound minutes, as well as an increase in revenues in the Internet sector caused by an increase in the number of broadband customers as well as an increase in integration operations and communications solutions for corporate customers. Gains in these areas were partially offset by a decline in lower margin revenues from call transfer activity between international communications providers (hubbing) and lower PBX sales activity. Fourth quarter 2008 revenues totaled NIS 337 million, up 0.9% from revenue of NIS 334 million in the fourth quarter 2007.

Bezeq International generated a net profit of NIS 178 million in 2008, an increase of 16.3% compared to a net profit of NIS 153 million in 2007. Fourth quarter 2008 net profit totaled NIS 46 million, an increase of 21.1% compared to NIS 38 million in the fourth quarter of 2007. The increase in profitability came as a result of growth in core business areas, combined with a decrease in general and operating expenses.

Bezeq International posted 2008 EBITDA of NIS 322 million (24.7% EBITDA margin), an increase of 10.7% compared to EBITDA of NIS 291 million (22.3% EBITDA margin) for 2007. EBITDA for the fourth quarter of 2008 totaled NIS 85 million (25.2% EBITDA margin), up 28.8% compared to NIS 66 million (19.8% EBITDA margin) in the fourth quarter of 2007.

Bezeq International operating and free cash flow reflected significant improvements year-over-year based on the positive impact of working capital changes.





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## yes Results

<b>yes</b>	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Q4 2008</u>	<u>Q4 2007</u>	<u>Change</u>
	<i>(NIS millions)</i>			<i>(NIS millions)</i>		
Revenues	1,513	1,415	6.9%	377	347	8.6%
Operating profit	177	56	216.1%	56	4	1300.0%
EBITDA	427	329	29.8%	122	74	64.9%
EBITDA margin	28.2%	23.3%		32.4%	21.3%	
Net profit	(265)	(118)	124.6%	(18)	(75)	-76.0%
Cash flows from operating activities	347	250	38.8%	134	76	76.3%
Capex, net *	238	255	-6.7%	63	81	-22.2%
Free cash flow	109	(5)	<i>n.m.</i>	71	(5)	<i>n.m.</i>
Number of subscribers (end of period, in thousands)	560	549	2.0%	560	549	2.0%
Average revenue per user (ARPU, NIS)	228	217	5.1%	225	212	6.1%

\* Including subscriber acquisition costs

Revenue from the yes multi-channel pay-TV segment for 2008 increased 6.9% to NIS 1.51 billion in 2008. yes' revenue for the fourth quarter of 2008 increased 8.6% to a record NIS 377 million. The full year rise in revenue was primarily related to a 2.0% net increase in subscribers as well as a 5.1% increase in the average revenue per user (ARPU) to NIS 228 for the full year period.

Net loss increased to NIS 265 million in 2008 versus a net loss of NIS 118 million in the year ago period. Net loss for the full year 2007 period benefited from a NIS 213 million favorable, one-time impact related to non-cash financing expenses resulting from the revaluation of shareholder loans. Net loss in the fourth quarter of 2008 totaled just NIS 18 million compared to a net loss of NIS 75 million in the fourth quarter of 2007. Excluding the expenses derived from shareholder financing, yes was essentially breakeven in the fourth quarter of 2008.

yes posted EBITDA of NIS 427 million (28.2% EBITDA margin) for 2008, an increase of 29.8% over EBITDA of NIS 329 million (23.3% EBITDA margin) for 2007. yes' EBITDA for the fourth quarter of 2008 increased 64.9% to a record NIS 122 million (32.4% EBITDA margin) as compared to EBITDA of NIS 74 million (21.3% EBITDA margin) for the fourth quarter of 2007, which was negatively influenced by a temporary disruption of broadcasting services.

yes grew its customer base by 2.0% in 2008 with 560,000 subscribers as of December 31, 2008, up 10,400 subscribers from the year ago period and up from 556,000 as of September 30, 2008.



## Outlook

As the challenges facing the global economic environment have translated into a slowdown in the Israeli economy, Bezeq is monitoring the potential impacts on its business on an ongoing basis. Despite this challenging economic backdrop, in 2009 we aim to maintain EBITDA, operating cash flows and gross capital expenditures close to those of full year 2008 performance levels. This forecast is underpinned by the strength of Bezeq's comprehensive consumer and business communications offerings, a strict focus on improving operating efficiencies and strong operating cash flows.

With specific regards to gross capital expenditures, 2009 will reflect continuing investment in Pelephone's HSPA network investment, which was successfully launched with national coverage at the end of January 2009, and the modular deployment of Bezeq's Next Generation Network (NGN), expanding its coverage to reach a meaningful part of Israeli households during 2010.



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## **Conference Call & Web Cast Information**

Bezeq will conduct a conference call hosted by Mr. Shlomo Rodav, Bezeq Chairman and Mr. Alan Gelman, Bezeq Chief Financial Officer and Deputy CEO, on Tuesday, March 24, 2009, at 4:00 PM Israel Time / 10:00 AM Eastern Time. Participants are invited to join the live conference call by dialing:

International Phone Number: + 972-3-918-0609

Israel Phone Number: 03-918-0609

A live webcast of the conference call will be available on the investor relations section of the Bezeq corporate website at [www.bezeq.co.il](http://www.bezeq.co.il). Please visit the website at least 15 minutes early to register for the webcast and download any necessary audio software.

A webcast replay will be made available on the investor relations section of the Bezeq corporate website. An automated telephone replay will also be available approximately three hours after the completion of the live call through Tuesday, March 31, 2009. Participants are invited to listen to the conference call replay by dialing:

International Phone Number: + 972-3-925-5928

Israel Phone Number: 03-925-5928

## **About Bezeq The Israel Telecommunication Corp.**

Bezeq is Israel's leading telecommunications service provider. Established in 1984, the Company has led Israel into the new era of communications, based on the most advanced technologies and services. Bezeq and its subsidiaries offer the full range of communications services including domestic, international and cellular phone services; Internet, ADSL, and other data communications; satellite based multi-channel TV; and corporate networks.

For more information about Bezeq please visit the corporate website at [www.bezeq.co.il](http://www.bezeq.co.il).

*This press release contains general data and information as well as forward looking statements about Bezeq. Such statements include expressions of management's expectations about new and existing programs, 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. These forward-looking statements are made only as of the date hereof and the company assumes no obligation to update any forward-looking statement. In addition, the realization 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 the Corporation, including the risk factors that are characteristic of its operations, and developments in the general environment, and external factors and the regulation that affects the Corporation's operations.*

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# Press Release

## "Bezeq" The Israel Telecommunication Corp., Limited Consolidated Income Statements For The Year Ended December 31

	<u>2008</u> NIS millions	<u>2007</u> NIS millions	<u>2006</u> NIS millions
<b>Revenue</b>	<b>12,407</b>	12,400	12,232
<b>Costs and expenses</b>			
Depreciation and amortisation	<b>1,703</b>	1,769	1,864
Salary	<b>2,354</b>	2,375	2,586
Operating and general expenses	<b>5,437</b>	5,841	5,967
Other operating expenses, net	<b>96</b>	39*	231*
	<b>9,590</b>	10,024	10,648
Operating income	<b>2,817</b>	2,376	1,584
<b>Financing expenses</b>			
Financing expenses	<b>747</b>	836*	713*
Financing income	<b>(166)</b>	(487)	(356)
Financing expenses, net	<b>581</b>	349	357
Profit after financing expenses, net	<b>2,236</b>	2,027	1,227
<b>Equity in profits of associates accounted by the equity method</b>	<b>5</b>	6	11
Profit before income tax	<b>2,241</b>	2,033	1,238
<b>Income tax</b>	<b>720</b>	672	488
Profit for the year	<b>1,521</b>	1,361	750
<b>Attributable to:</b>			
The shareholders of the Company	<b>1,627</b>	1,330	809
Non-controlling interest	<b>(106)</b>	31	(59)
Profit for the year	<b>1,521</b>	1,361	750
<b>Earnings per share</b>			
Basic earnings per share (in NIS)	<b>0.62</b>	0.51	0.31
Diluted earnings per share (in NIS)	<b>0.61</b>	0.50	0.31

\* Reclassified



# Press Release

## "Bezeq" The Israel Telecommunication Corp., Limited Consolidated Balance Sheets at December 31

	2008	2007
	NIS millions	NIS millions
<b>Assets</b>		
Cash and cash equivalents	786	1,203
Investments, including derivatives	33	389
Trade receivables	2,373	2,403
Other receivables	211	247
Inventory	158	203
Current tax assets	-	11
Assets classified as held for sale	34	17
<b>Total current assets</b>	<b>3,595</b>	<b>4,473</b>
Trade receivables	576	535
Investments, including derivatives	187	233
Broadcasting rights, net of rights exercised	253	243
Property, plant and equipment	6,036	6,064
Intangible assets	2,674	2,526
Deferred and other expenses	411	367
Investments in associates accounted by the equity method	32	37
Deferred tax assets	547	678
<b>Total non-current assets</b>	<b>10,716</b>	<b>10,683</b>
<b>Total assets</b>	<b>14,311</b>	<b>15,156</b>



## "Bezeq" The Israel Telecommunication Corp., Limited Consolidated Balance Sheets at December 31 (continued)

	<u>2008</u> NIS millions	<u>2007</u> NIS millions
<b>Liabilities</b>		
Debentures, loans and borrowings	1,780	1,913
Trade payables	1,381	1,533
Other payables, including derivatives	850	745
Current tax liabilities	45	57
Deferred income	62	47
Provisions	355	392
Employee benefits	401	705
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>4,874</b>	<b>5,392</b>
	<hr/>	<hr/>
Debentures	3,943	4,420
Obligations to banks	214	307
Loans from institutions	109	105*
Loans provided by non-controlling interest in a subsidiary	449	375
Employee benefits	265	261
Deferred income and others	76	67*
Provisions	64	57
Deferred tax liabilities	65	-
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>5,185</b>	<b>5,592</b>
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>10,059</b>	<b>10,984</b>
	<hr/>	<hr/>
<b>Equity</b>		
Share capital	6,132	6,132
Reserves	748	681
Deficit balance	(2,157)	(2,268)
	<hr/>	<hr/>
<b>Total equity attributable to shareholders of the Company</b>	<b>4,723</b>	<b>4,545</b>
	<hr/>	<hr/>
<b>Non-controlling interest</b>	<b>(471)</b>	<b>(373)</b>
	<hr/>	<hr/>
<b>Total equity</b>	<b>4,252</b>	<b>4,172</b>
	<hr/>	<hr/>
	<hr/>	<hr/>
<b>Total equity and liabilities</b>	<b>14,311</b>	<b>15,156</b>

\* Reclassified



## "Bezeq" The Israel Telecommunication Corp., Limited Consolidated Statements of Cash Flows For The Year Ended December 31

	<u>2008</u> NIS millions	<u>2007</u> NIS millions	<u>2006</u> NIS millions
<b>Cash flows from operating activities</b>			
Net profit for the year	1,521	1,361	750
Adjustments:			
Depreciation	1,394	1,482	1,591
Amortization of intangible assets	289	270	248
Amortization of deferred and other charges	20	17	25
Loss (gain) from decrease in holdings in associates accounted by the equity method	-	1	(1)
Share in profits of associates accounted by the equity method	(5)	(6)	(11)
Financing costs, net	561	372	512
Capital gain, net	(68)	(88)	(159)
Share-based payment transactions	75	-	287
Payments to a former senior officer	-	6	-
Income tax expenses	720	672	488
Payment for settlement of derivative financial instruments, net	(38)	(9)	(27)
Change in inventory	42	(6)	23
Change in trade receivables	(10)	(437)	109
Change in other receivables	(44)	4	(108)
Change in other payables	15	(18)	(14)
Change in trade payables	(225)	36	(79)
Change in provisions	(34)	105	27
Change in broadcasting rights net of rights utilized	(11)	(74)	(15)
Change in employee benefits	(302)	(300)	169
Change in deferred income and others	50	(11)	1
Income tax paid	(535)	(430)	(277)
<b>Net cash from operating activities</b>	<b>3,415</b>	<b>2,947*</b>	<b>3,539*</b>
<b>Cash flows from investment activities</b>			
Investment in intangible assets and in deferred expenses	(469)	(273)	(210)
Proceeds from sale of property, plant and equipment and deferred expenses	147	177	48
Realization of current investments, net	321	647	1,491
Purchase of property, plant and equipment	(1,300)	(973)	(953)
Proceeds from realization of investments and long-term loans	19	66	63
Purchase of investments and long-term loans	(8)	(8)	(20)
Dividend received	13	3*	26*
Interest received	64	116*	220*
<b>Net cash from (used for) investment activities</b>	<b>(1,213)</b>	<b>(245)</b>	<b>665</b>

\* Reclassified



# Press Release

## "Bezeq" The Israel Telecommunication Corp., Limited Consolidated Statements of Cash Flows For The Year Ended December 31 (cont'd)

	<u>2008</u> <u>NIS millions</u>	<u>2007</u> <u>NIS millions</u>	<u>2006</u> <u>NIS millions</u>
<b>Cash flows from financing activities</b>			
Issuance of debentures	-	1,814	-
Receipt of loans from institutions	-	50	50
Repayment of debentures	(714)	(1,927)	(280)
Repayment of loans	(148)	(840)	(1,269)
Short-term borrowing, net	(50)	(37)	43
Dividend paid	(1,514)	(2,860)	(1,600)
Interest paid	(243)	(389)	(602)
Receipt (payment) for settlement of derivative financial instruments, net	52	77	(76)
Transfer of funds by non-controlling interest less dividend distributed, net	8	-	-
	<u>(2,609)</u>	<u>(4,112)</u>	<u>(3,734)</u>
<b>Net cash used for financing activities</b>			
	<u>(2,609)</u>	<u>(4,112)</u>	<u>(3,734)</u>
<b>Increase (decrease), net, in cash and cash equivalents</b>			
Cash and cash equivalents at January 1	1,203	2,632	2,159
Effect of fluctuations in the rate of exchange on cash balances	(10)	(19)	3
	<u>(10)</u>	<u>(19)</u>	<u>3</u>
<b>Cash and cash equivalents at the end of the period</b>			
	<u>786</u>	<u>1,203</u>	<u>2,632</u>