



BEZEQ
(TASE: BEZQ)

Investor Presentation
March 2012

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 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. 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 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

The largest provider of telecommunications services in Israel

- 2011 Revenue: NIS 11.4 billion
- Most comprehensive range of offerings
 - 2.37 million fixed customer lines
 - 2.85 million cellular customer lines
 - 1.11 million broadband lines
 - 586,000 Pay-TV customers
- Highly dynamic market with one of the highest household broadband and mobile penetration rates
- NIS 3.15 billion in dividends paid to shareholders in 2011



The Bezeq Advantage



Strong market positions in all telecom sectors



Advanced nationwide infrastructure



Sector leading dividend policy



Strong, stable and experienced management team

BEZEQ GROUP

Wide diversification of advanced telecom services



**Fixed
Line**



Cellular



**Bezeq
International**

ISP, ILD, ICT



Pay TV

walla

Internet Portal



Call Center

Investments in Advanced Infrastructure

Fixed Line



- Most advanced communications network in Israel
- FTTC, all IP, infrastructure for consumer and business customers
- 85% of Israeli households covered

Telephone

HIGH SPEED GSM+

HSPA

- HSPA (High Access Packet Speed) cellular technology offering 3.75 G speed
- Essential to accessing higher value segments of the mobile market
- Strong platform for rising smartphone demand and advanced data services

Bezeq International



- New high-speed submarine cable system deployed between Israel and Europe
- Increasing bandwidth at affordable rates



Bezeq Group Financial Overview

Bezeq Group – Revenue & EBITDA

Consolidated Revenue

NIS MM

11,519

11,987

11,373

2009

2010

2011

Consolidated EBITDA

NIS MM

38.7%

43.0%

40.8%

4,457

5,153

4,637

2009

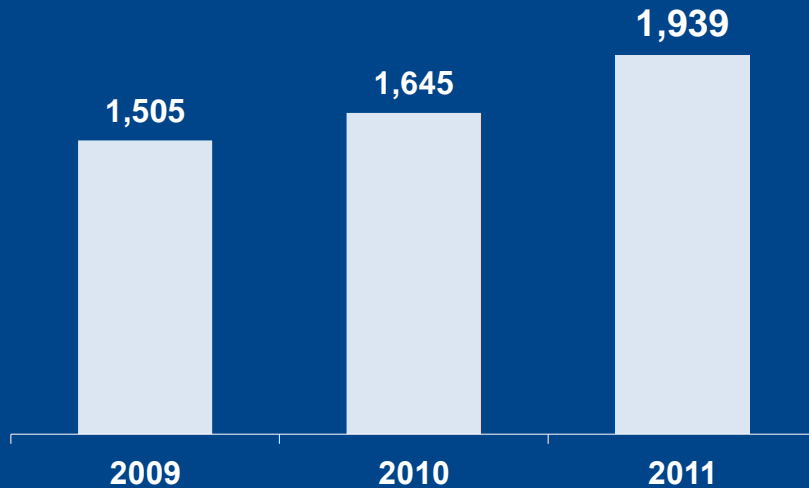
2010

2011

- Consolidated revenues in 2011 were impacted by the decrease in mobile termination rates in Bezeq Fixed-line and Pelephone
- EBITDA in 2011 was impacted by a NIS 369 million provision for early retirement and a NIS 113 million net expense for the new employee stock option plan, as compared to NIS 36 million and NIS 12 million respectively, in 2010

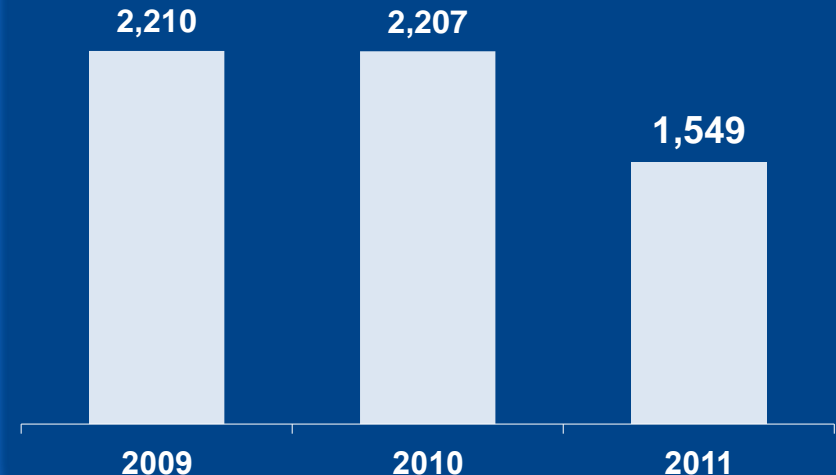
Bezeq Group – CapEx & Free Cash Flow

Consolidated CapEx
NIS MM



Note: Consolidated capital expenditures (CapEx) cited on accounting basis

Consolidated Free Cash Flow ^{(1) (2)}
NIS MM

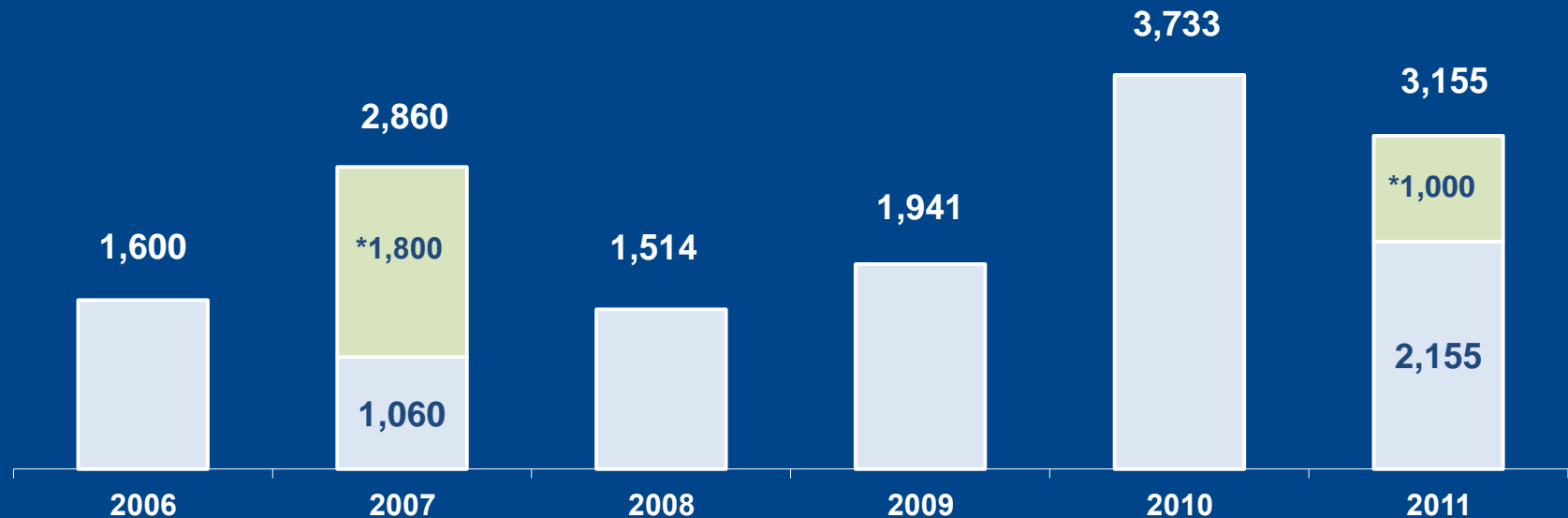


1. Free cash flow defined as Cash Flow from Operations– Net Capex
2. Excluding yes

- FCF in 2011 was influenced by increased CAPEX for NGN deployment and Bezeq International submarine cable. In addition, increased sales and financing of handsets by Pelephone to customers (primarily smartphones) impacted cash flows

Sector Leading Dividend Policy

Bezeq Group Dividends by Year (NIS MM)

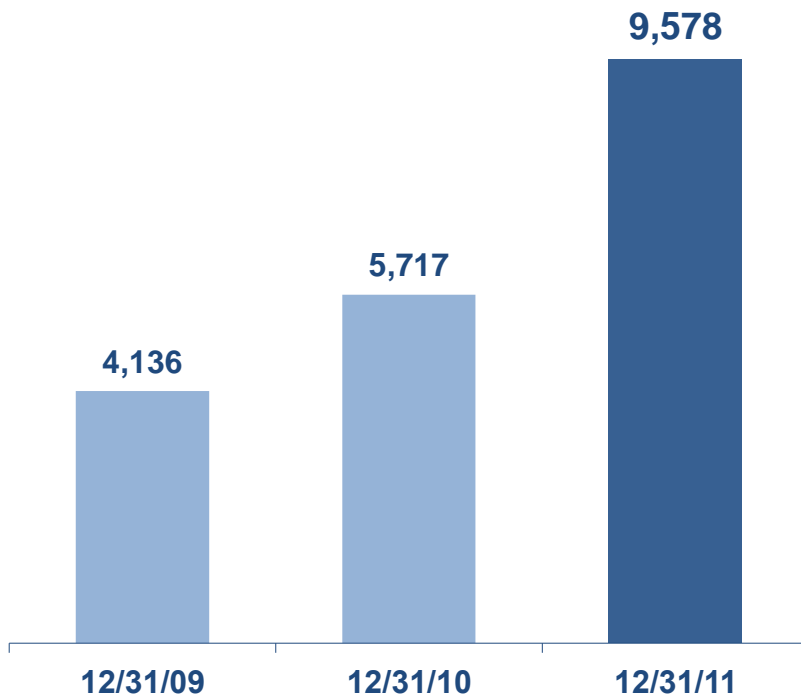


* Special dividend

- **Regular Dividends:** 100% of net profit attributable to shareholders distributed as cash dividends on a semi-annual basis
- **Special Dividends:** Four semi-annual NIS 500 million payments to run from 2012 to 2013, as part of the Company's capital reduction plan

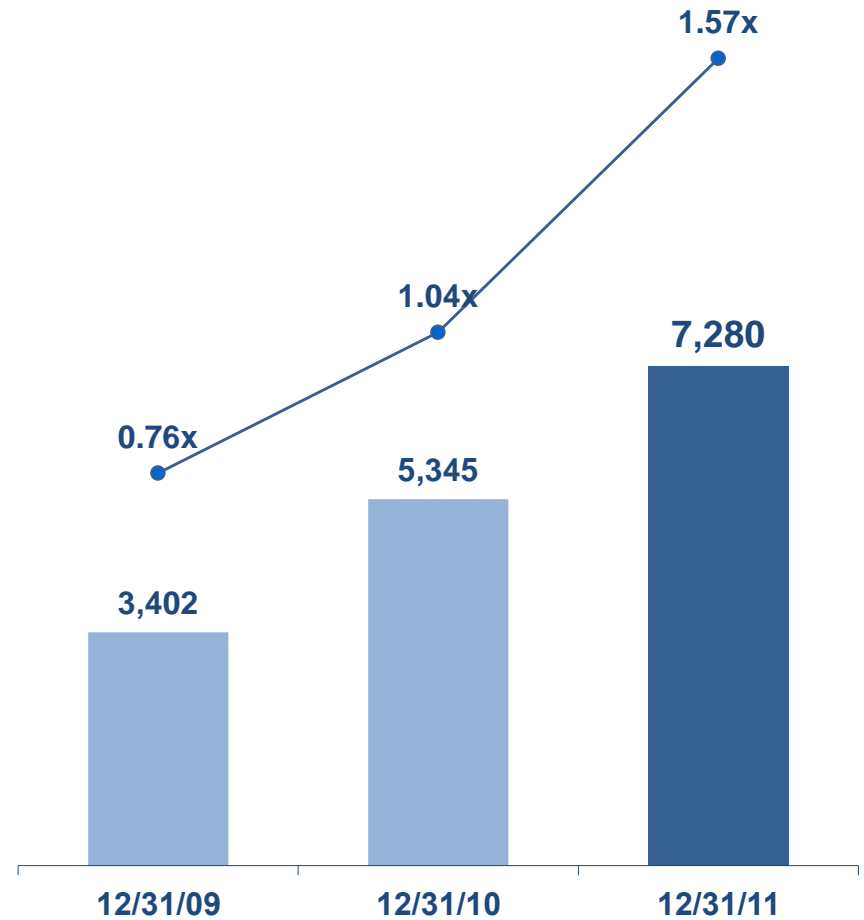
Bezeq Group – Debt

Group Gross Debt (NIS MM)



Net Debt (NIS MM)

Net Debt / EBITDA



Regulatory Opportunities and Challenges



- ! **Cancellation of structural separation**
- ! **Development of wholesale market**
- ! **Cancellation of tariff supervision**



Bezeq Fixed Line

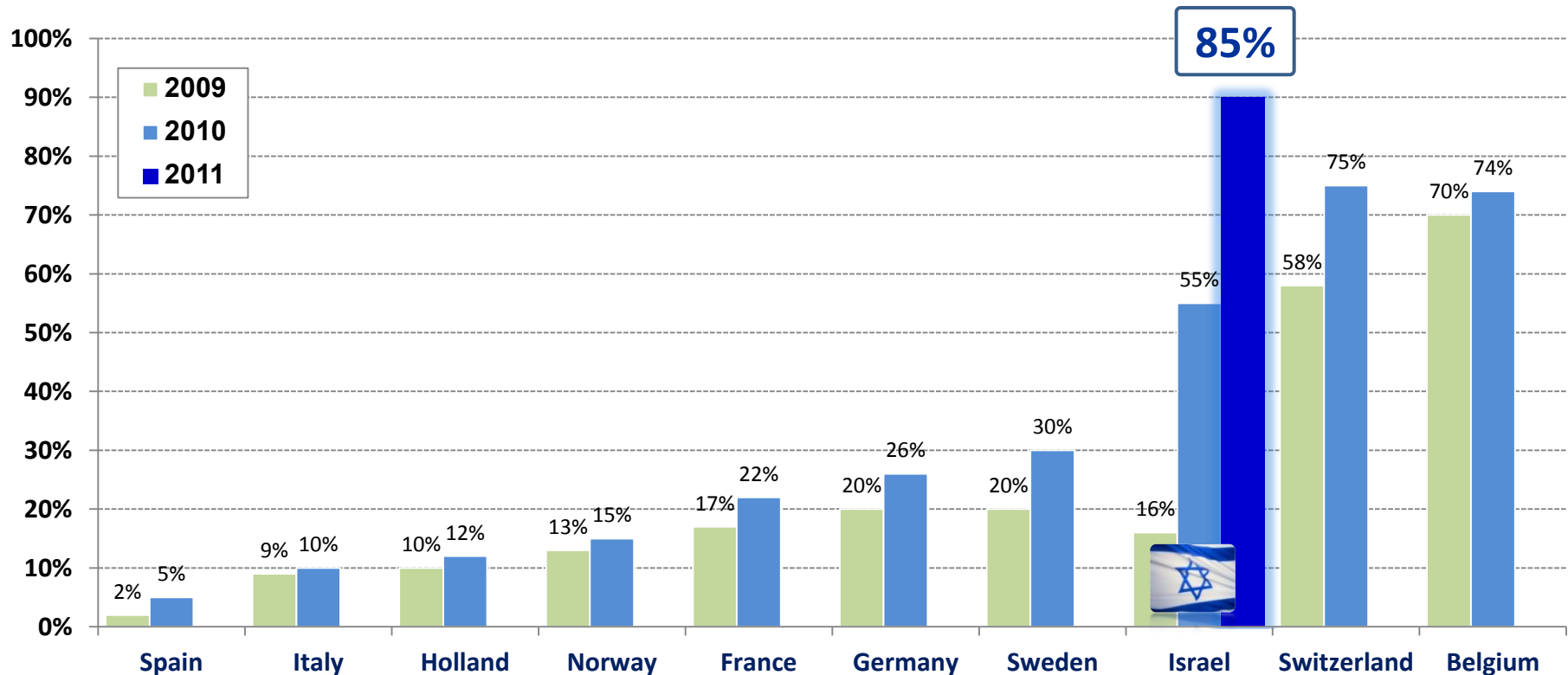


Bezeq is uniquely positioned as the dominant provider of the full range of telecom products and services in Israel

A Global Leader in NGN Deployment

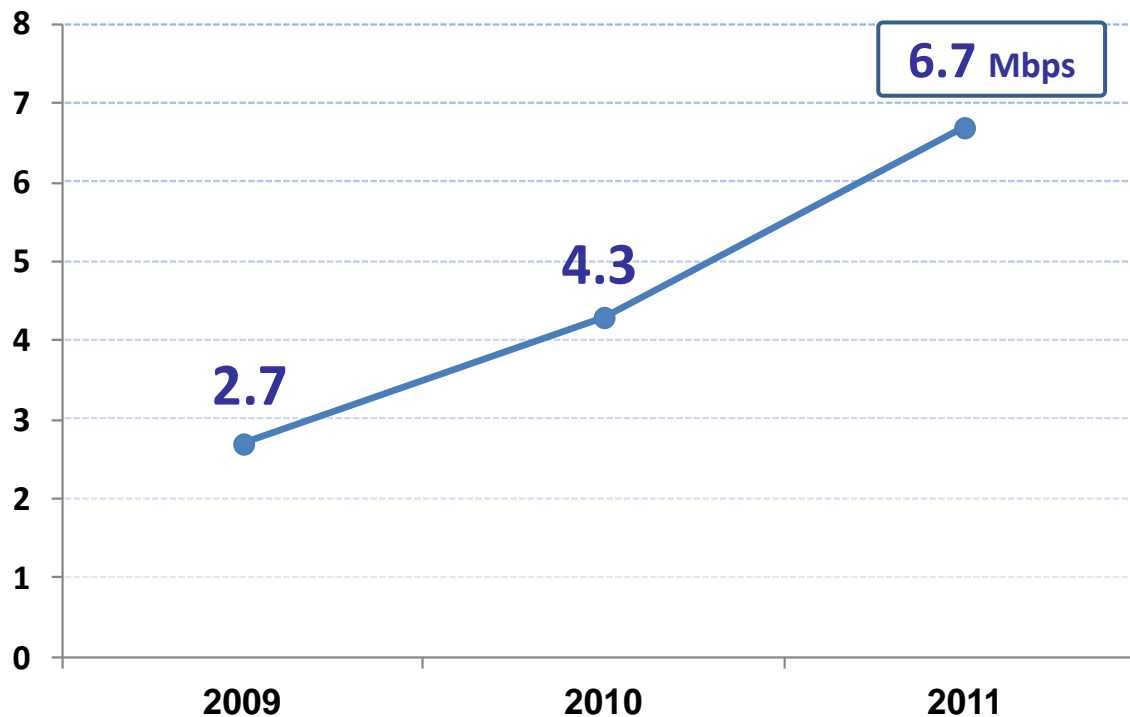
With the NGN, Israel is one of the leading countries in the world in terms of telecom infrastructure and advanced services

Household Coverage - NGN Infrastructure (2009-2011)



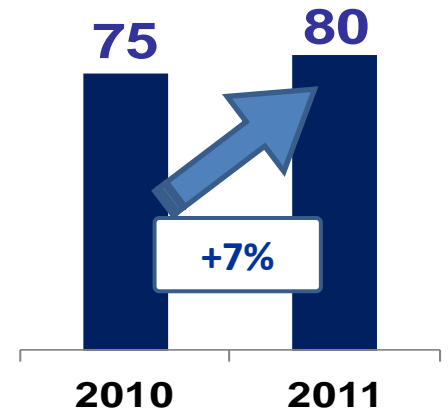
NGN Increasing Average Broadband Speeds

56% year-over-year increase in average broadband speed per subscriber



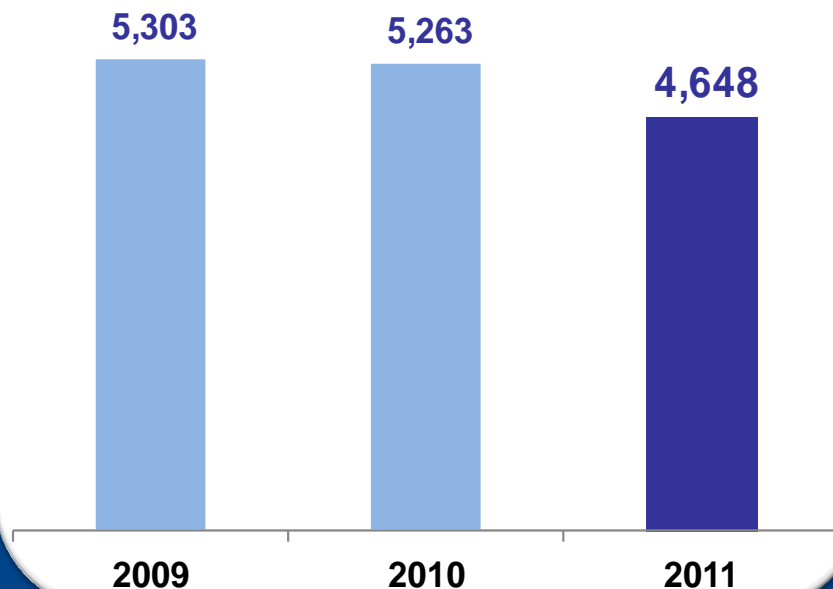
Megabits Per Second (Mbps)

Broadband Internet ARPU (NIS)

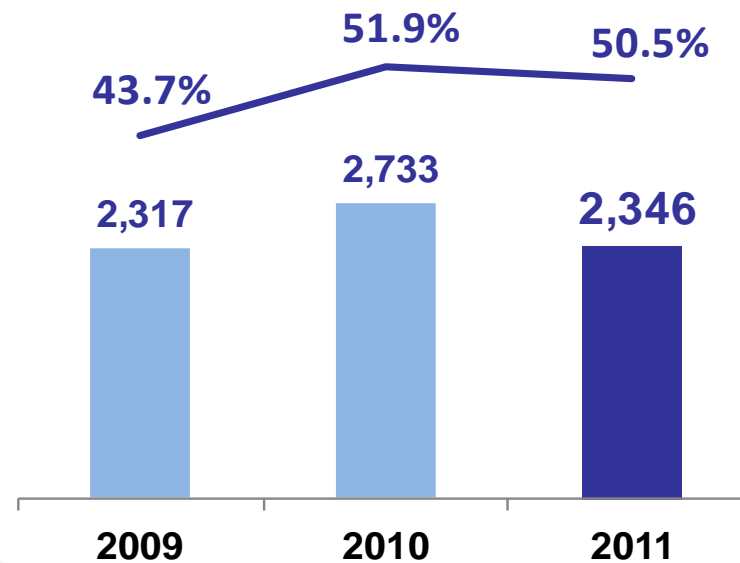


Fixed Line – Revenue & EBITDA

Fixed Line Revenue
NIS MM



Fixed Line EBITDA
NIS MM



- Stable revenues after exclusion of MTR fees in 2011⁽¹⁾
- EBITDA of NIS 2.3 billion was impacted by NIS 369 million provision for early retirement and a net expense of NIS 113 million for the new employee stock option plan, as compared to NIS 36 million and NIS 12 million respectively, in 2010

(1) Since there is a corresponding reduction in expenses, there was no effect on EBITDA



Telephone

Cellular

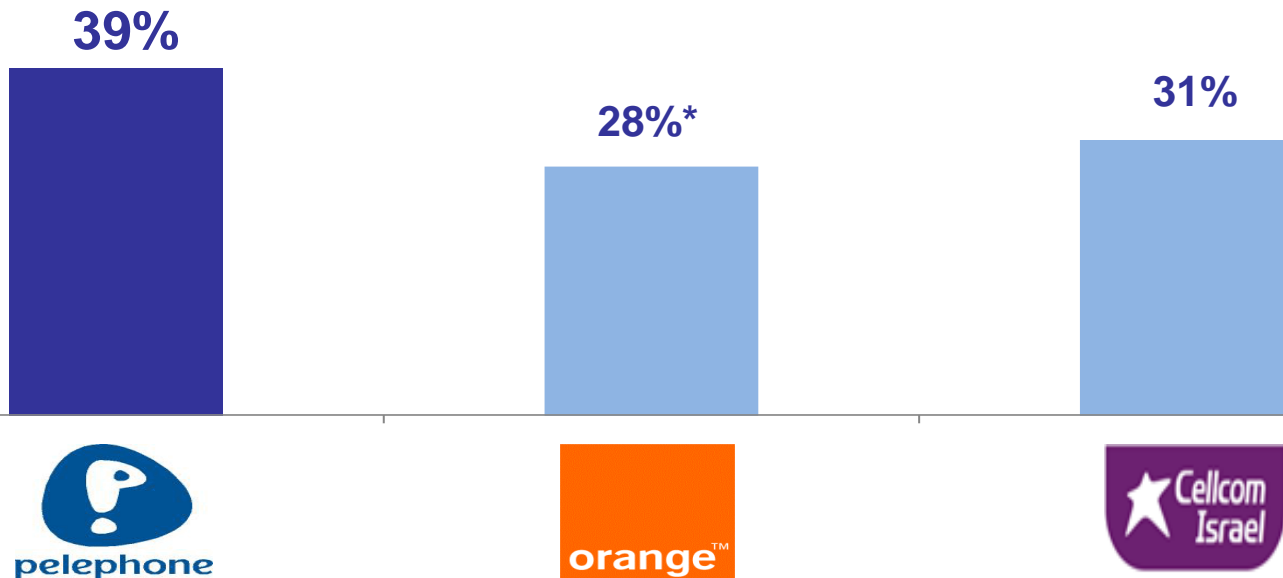


- 2.85 million cellular customers
- 3.75 G speed HSPA technology
- Strong platform for rising smartphone demand and advanced data services



Data Services & Network Speed Leadership

Data Revenues as a % of Total Cellular Revenues (4Q 2011)



* 3Q 2011

FASTEST iPHONE NETWORK WORLDWIDE

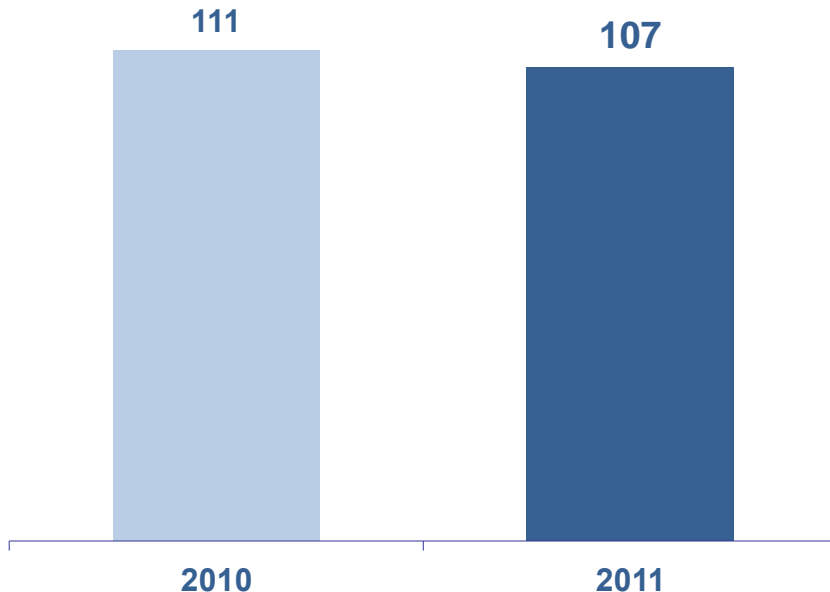


- Pelephone's HSPA was honored with the accolade of offering the highest average iPhone speed among 104 wireless carriers worldwide.

- Ookla Net Metrics

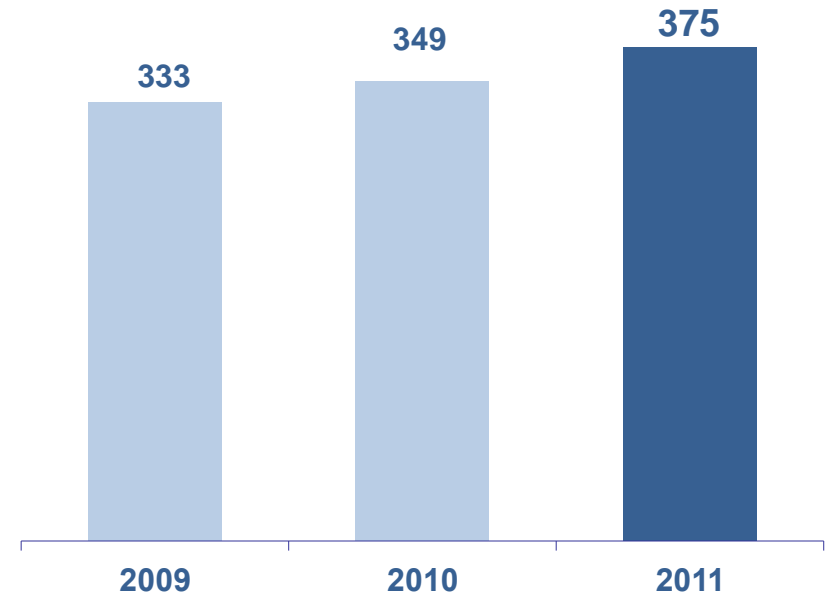
Telephone KPIs

ARPU (NIS)*



* ARPU in 2010 was adjusted for reduction in mobile termination rates

Minutes of Use (MOU)



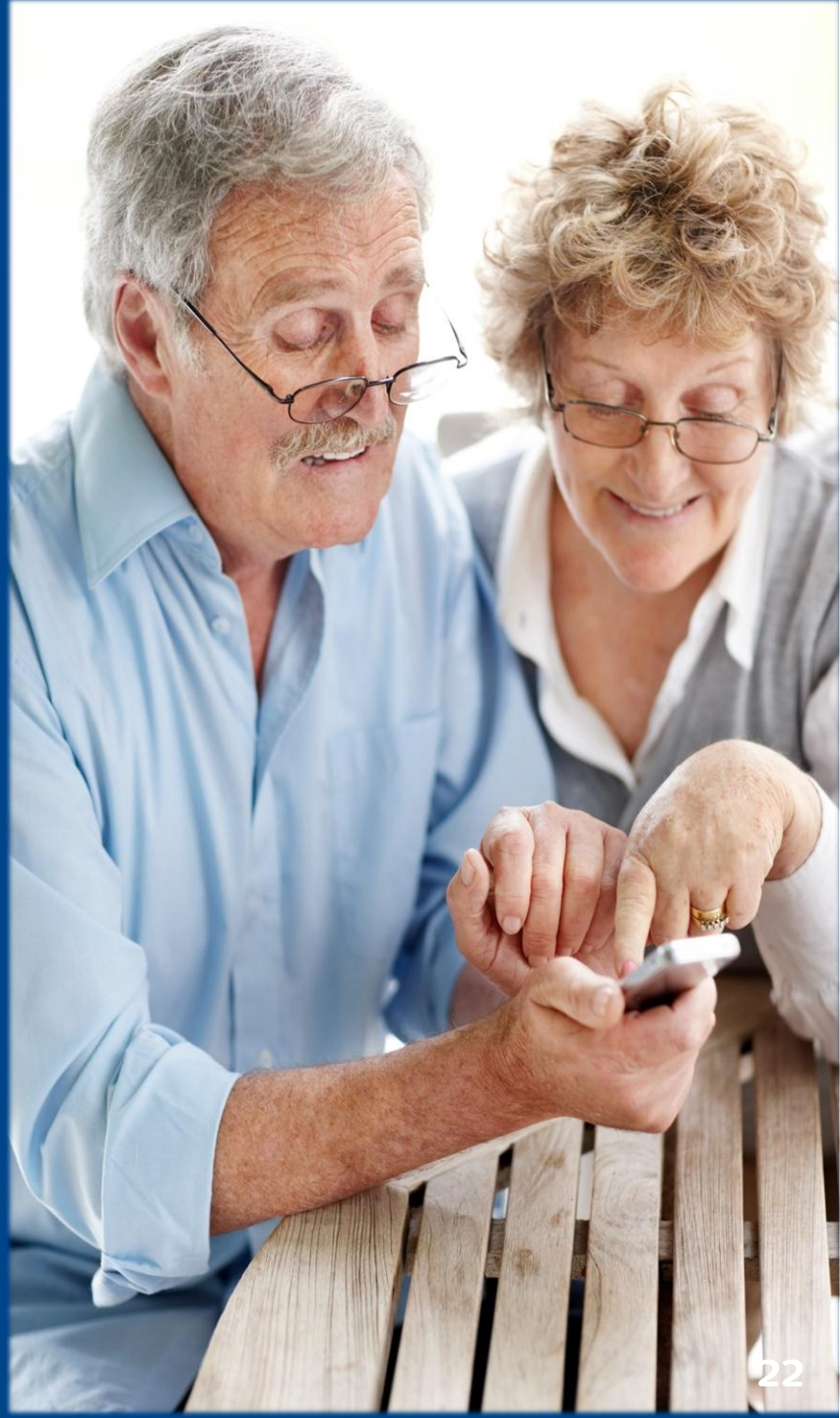
- ARPU decreased in 2011 due to intensified competition resulting in a lower average monthly bill
- MOU increase in 2011 driven by transition to multi-minute and SMS packages

Cellular Competitive Environment

- Navigating new regulatory environment
- Increased competition – since February 2011
- New cellular operators

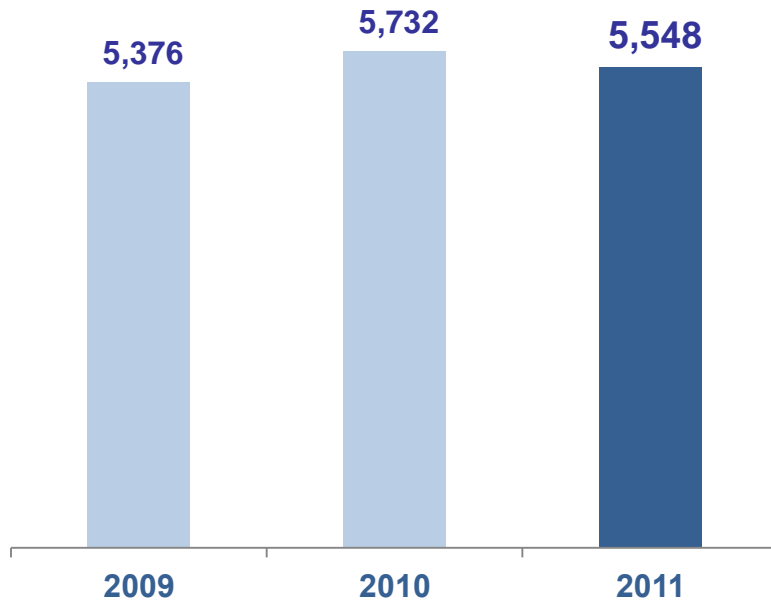
One MVNO operator - Q4 2011;
additional MVNO operators
expected 2012

New cellular operator 2012

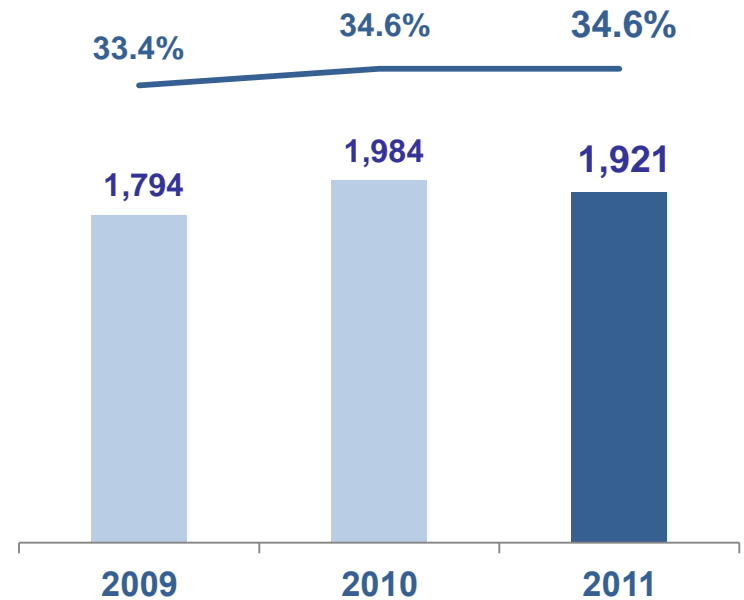


Telephone – Revenue & EBITDA

Telephone Revenue
NIS MM



Telephone EBITDA
NIS MM



- Total revenues decreased 3.2% YoY to NIS 5.5 billion mainly due to reduction in mobile termination rates
- Service revenues decreased 20.1% YoY while equipment revenues increased 61.7% YoY
- EBITDA decreased 3.2% YoY to NIS 1.9 billion, for a 34.6% EBITDA margin



Bezeq
International

ISP / ILD / ICT

Bezeq International

Israel's Leading Internet & International Telecom Provider

ISP



- Leading broadband Internet service in Israel
- Approximately 37% Internet market share
- Cutting edge infrastructure
- Customized service plans
- Advanced IP services

ILD



- International telephony
- Domestic telephony
- Top-tier international agreements
- Leading customer service

ICT

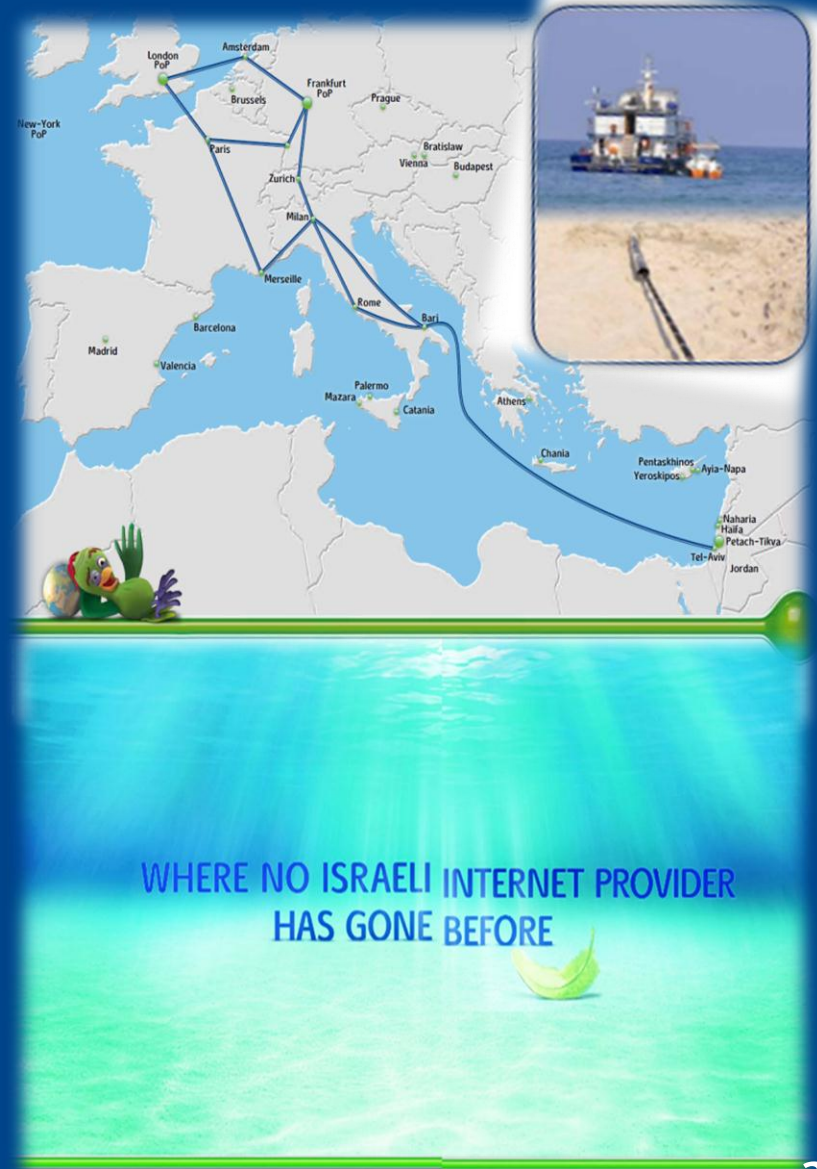


- Business class Internet, data, voice, hosting & integration services
- Israel's largest data center
- IT and Cloud Computing Services, Data Communication & Information Security Solutions

Bezeq International's Submarine Cable

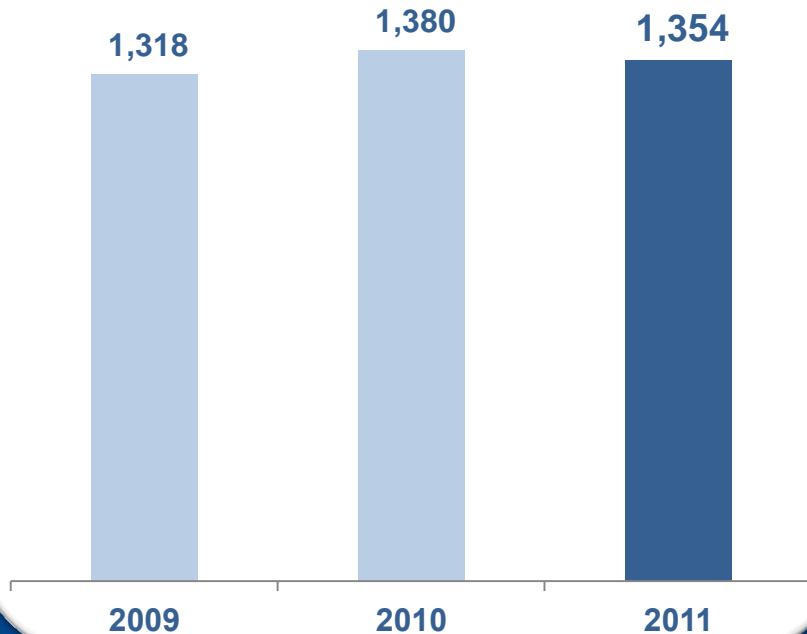
Bezeq International's new submarine cable provides a platform to:

- Better serve its customers via increase capacity and Internet speeds
- Increase revenue streams through additional capacity and services
- Reduce capital expenditures deriving from leasing capacity

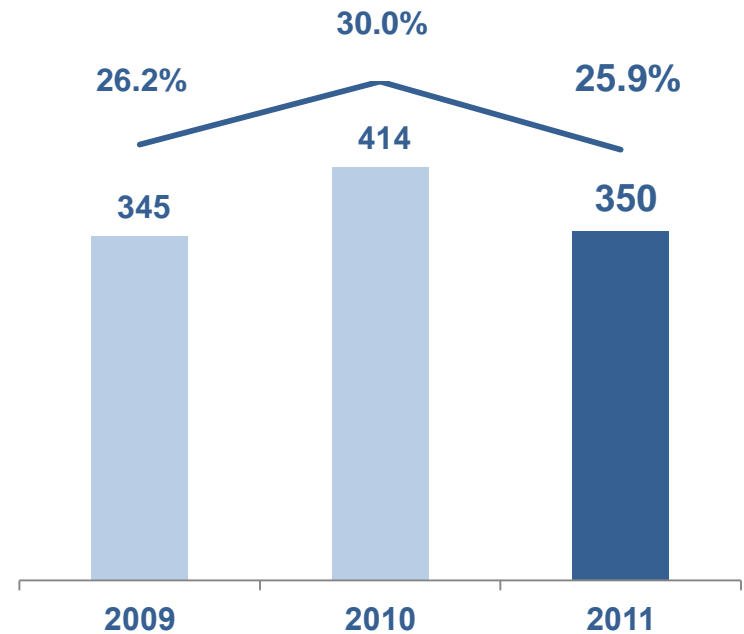


Bezeq International – Revenue & EBITDA

Bezeq International Revenue
NIS MM



Bezeq International EBITDA
NIS MM



- Revenues decreased 1.9% to NIS 1.35 billion driven by decreases in ILD and hubbing revenues
- EBITDA reached NIS 350 million, down 15.5% YoY, for an EBITDA margin of 25.9% due to a one-time profit recorded in 2010 for the consolidation and subsequent sale of Walla! to Bezeq



Satellite Television



A leader in designing the leisure & entertainment experience in Israeli home media

*Israel's sole satellite provider and first
television provider to offer digital
broadcasts and interactive services*

- *Nationwide satellite availability*
- *586,000 subscribers*
- *40% market share*
- *142 channels of content*
 - *Including 39 Yes branded channels*

Yes – Advanced Services

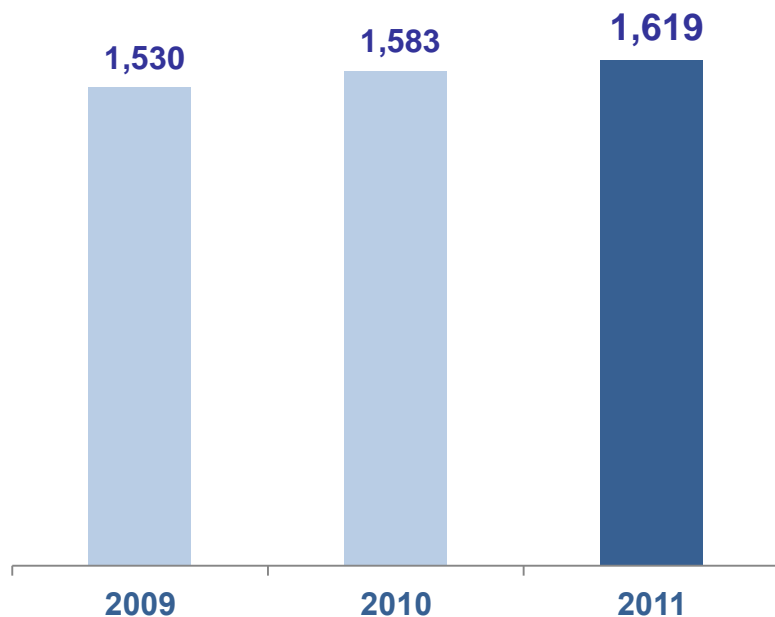


Ultimate Viewing Experience

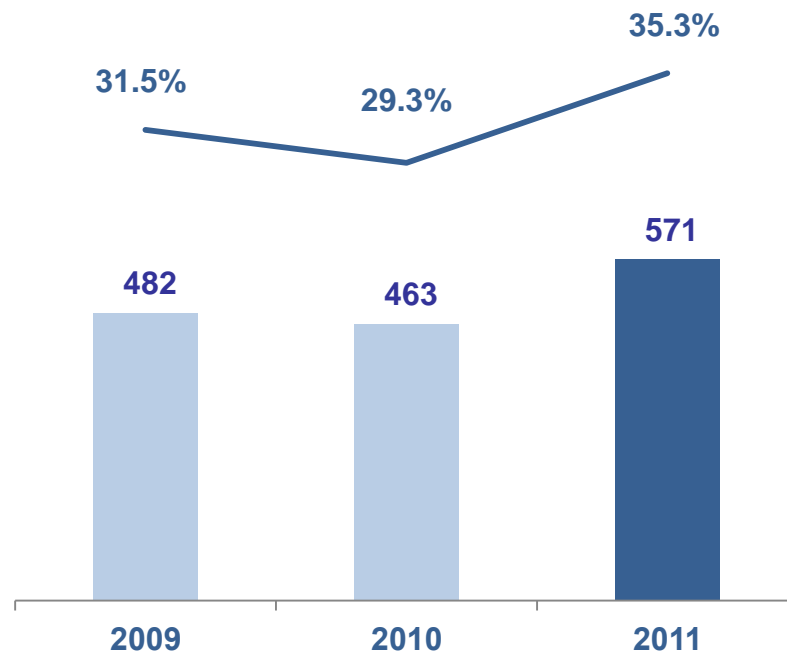
- Leading Content
- High Definition Channels
- Video on Demand (VOD) & Pay Per View (PPV)
- Advanced Programming Services
- Home Network Solutions
- iPhone Mobile Application Integration

Yes – Revenue & EBITDA

Yes Revenue
NIS MM



Yes EBITDA
NIS MM



- Revenues reached NIS 1.62 billion, up 2.3% YoY, driven mainly by growth of advanced pay-TV services
- EBITDA reached NIS 571 million, up 23.4% YoY, for an EBITDA margin of 35.3% mainly due to the reduction of the provision made in 2010 for retroactive royalties to ACUM.

Market Changes Create New Opportunities for the Bezeq Group

**Potential
cancellation of
structural separation**

**Demand for
Smartphones
and Data Services**

**Increased Demand
for High Speed
Internet**

**Demand for Content
and Advanced
Services (HD, VOD)**

Thank You

For more information please visit
www.bezeq.co.il