



Bezeq

2008 Annual Results

Investor Presentation
March 2009

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

Summary Highlights

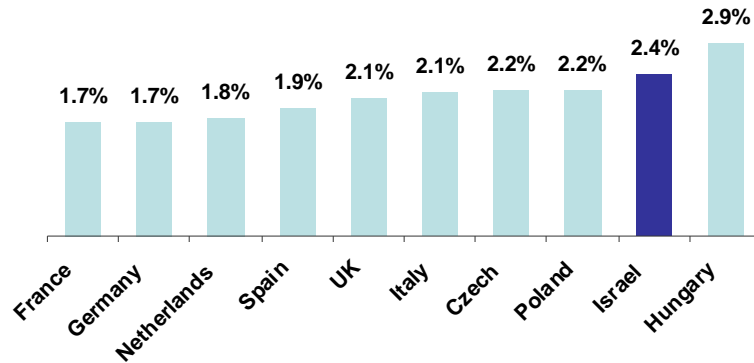
The most comprehensive communications platform in Israel



Telecom Spending in Israel

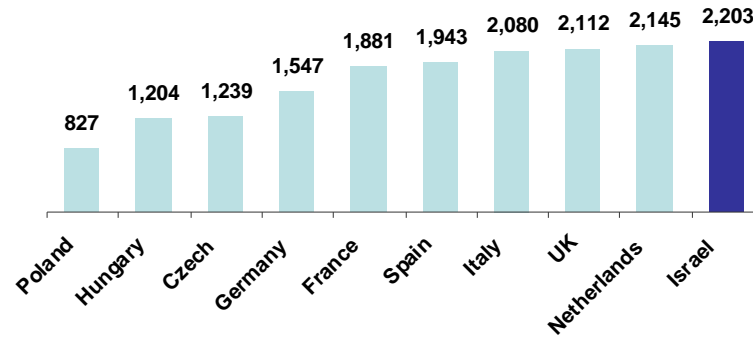
An advanced telecom market

Telecom Expenditures¹ as a Percentage of Nominal GDP 2008
%



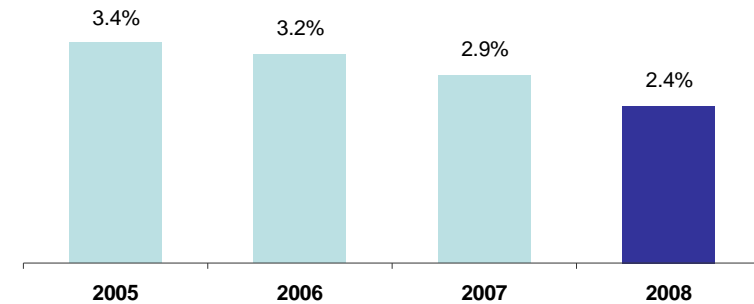
Source IDC, EIU

Annual Telecom Expenditures¹ per Household 2008
\$



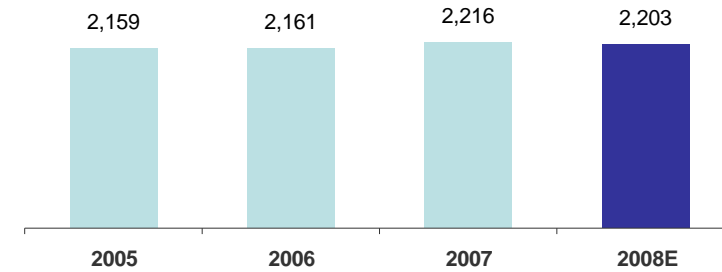
Source IDC, EIU

Telecom Expenditures¹ in Israel as a Percentage of Nominal GDP
%



Source IDC, EIU

Annual Telecom Expenditures¹ in Israel per Household
\$



Source IDC, EIU

1. Includes revenue from fixed voice, fixed data, mobile voice and mobile data services



Bezeq Group 2008 Key Achievements

! Record Group annual EBITDA and net income

- ! Group delivering profitability improvements across all divisions due in part to successful cost-efficiency measures

! Stable Group revenues despite challenging macro-economic conditions and intense competition

- ! Growth in Pelephone and yes compensated for the anticipated decline in Bezeq Fixed-Line

! Strategic capex investments enhanced the Group preparedness to compete in the future

- ! Pelephone completed development of its advanced HSPA network, successfully launched in early 2009
- ! Fixed-Line continues modular NGN deployment, to reach a meaningful part of Israeli households in 2010

! Strong cash flow generation and attractive shareholder remuneration

- ! Dividends of NIS 1.51 billion paid during 2008 – over 9% dividend yield



Bezeq Group 2008 Key Achievements, by Company

- ⌚ **Bezeq Fixed-Line improved EBITDA margin to 42.3% despite revenue erosion**
 - ⌚ Growth in Internet services and in the business segment continue to offset the anticipated decline in fixed-line telephony revenues

- ⌚ **Record EBITDA at Telephone**
 - ⌚ Successful completion of UMTS network
 - ⌚ Continued 3G leadership and uptake in value added services

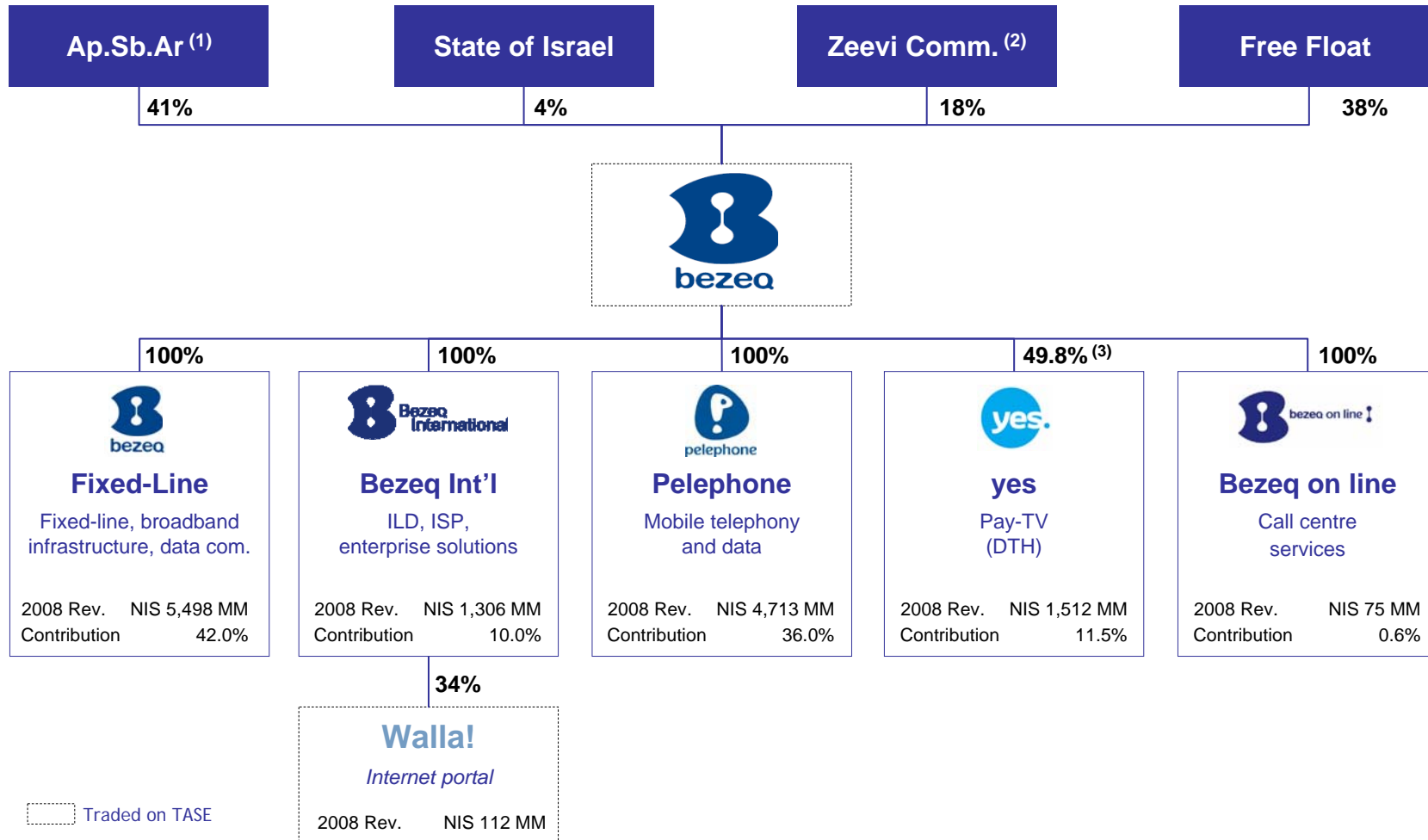
- ⌚ **Bezeq International reaffirmed leading position in ISP and reached #1 position in direct-dial international calls in Q4-08**

- ⌚ **Strong subscriber, ARPU and FCF performance at yes**
 - ⌚ Market share gains combined with significant improvement in cash flow generation



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



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 group

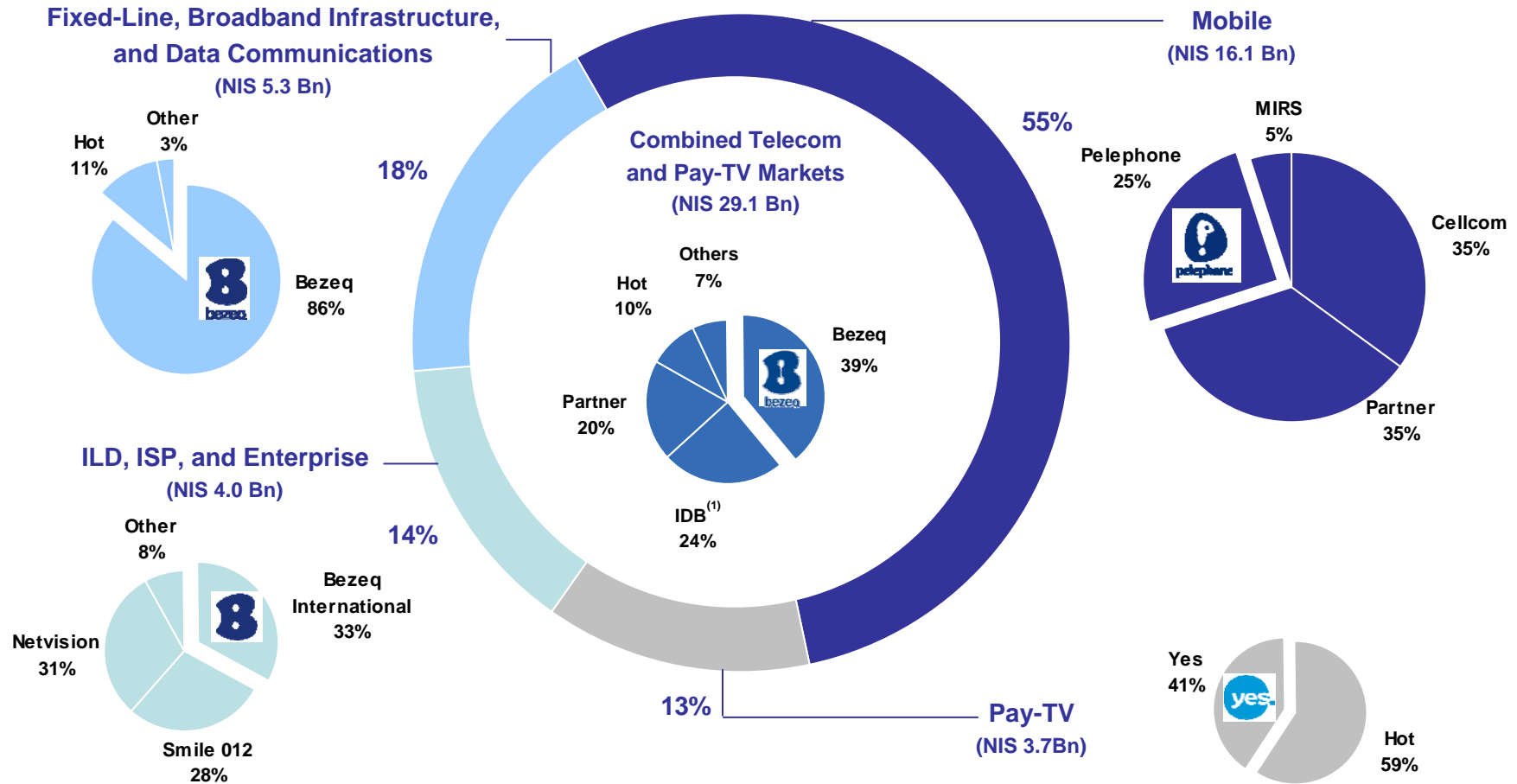
- **Maximise revenue in each business division**
 - Growth in non-traditional services to offset the decline in telephony services
 - Capitalise on the new UMTS and NGN networks
 - Increase uptake of value-added services in ISP, ILD and Enterprise
 - Focus on offering premium pay-TV content and related value-added services

- **Enhance profitability by improving efficiencies and reducing costs across the Group**



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



Regulatory Environment

- ⌚ **Fixed-Line – Bezeq’s market share in the fixed-line residential consumer market is below 85%**
 - ⌚ The MoC is expected to change our companies’ licenses to allow offering of bundled services (triple-play)
 - ⌚ Bezeq Int’l has been granted a license for the provision of VOB (Voice-over-Broadband) services

- ⌚ **Mobile**
 - ⌚ As of January 2009, mobile operators must charge per second and not per 12-second intervals
 - ⌚ Cellular operators are not allowed to raise tariffs during contract period
 - ⌚ ILD licenses will not be awarded to mobile operators before MVNO or WiMAX-based carriers compete with them on mobile services
 - ⌚ MVNO operator expected not before 2010

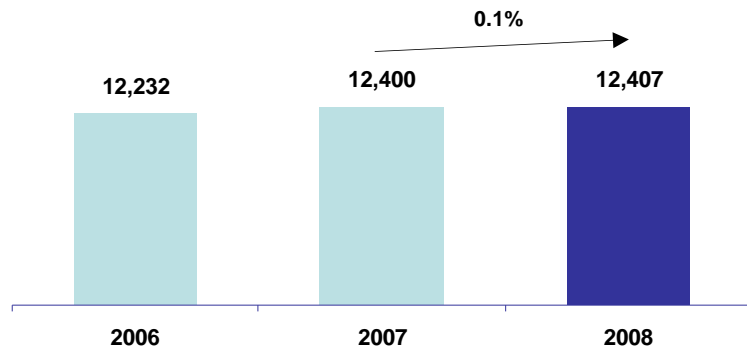
- ⌚ **Pay-TV – MoC-sponsored committee recently issued recommendations on multi-channel TV issues:**
 - ⌚ To allow pay-TV service providers to broadcast advertising as of January 2012
 - ⌚ Introduction of narrow TV package as of August 2012
 - ⌚ Reduction in royalties paid by multi-channel TV operators to the State towards zero in August 2012



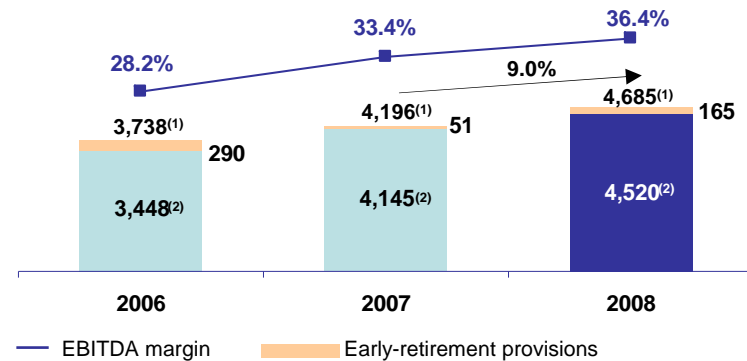
Bezeq Group Financial Performance

Stable revenues, record EBITDA and net income levels

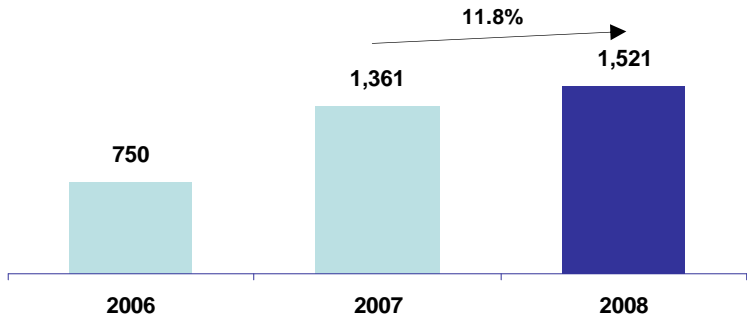
Group Revenue
NIS MM



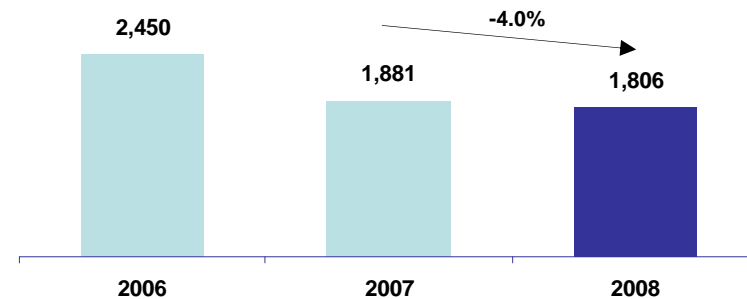
Group EBITDA
NIS MM



Group Net Income
NIS MM



Group Free Cash Flow ⁽³⁾
NIS MM



1. Adjusted for one-off labor agreement-related items
 2. Includes costs related to employee option (NIS 287MM in 2006, zero in 2007 and NIS 75MM in 2008)
 3. Free cash flow defined as Cash Flow from Operations – Net Capex + Dividends received



Bezeq Performance versus Guidance

Bezeq has met its full-year guidance

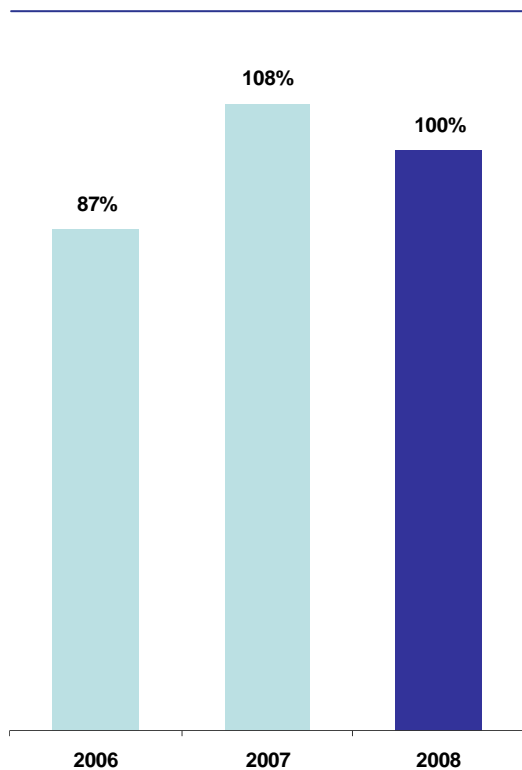
Outlook 2008	Guidance	2008 results	Performance vs. Guidance
Group revenue	Stable	Revenue increase +0.1%	✓
Group EBITDA margin	Margin expansion	EBITDA margin up +3.0 p.p	✓
Group Capex	Increase of 50%	+42% increase in Gross Capex	✓



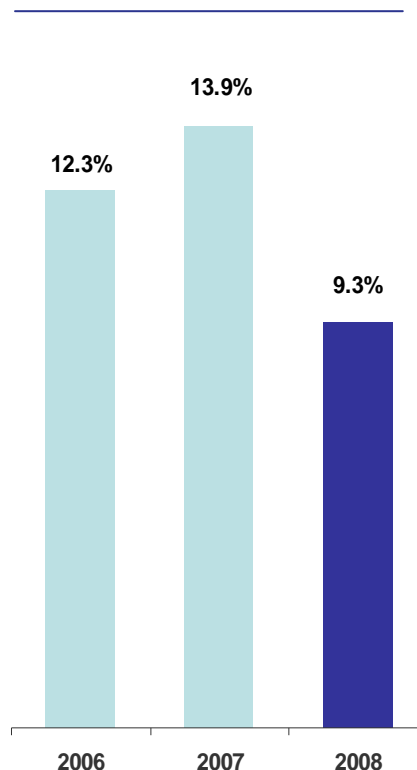
Shareholder Remuneration

Competitive shareholder remuneration while maintaining full financial flexibility

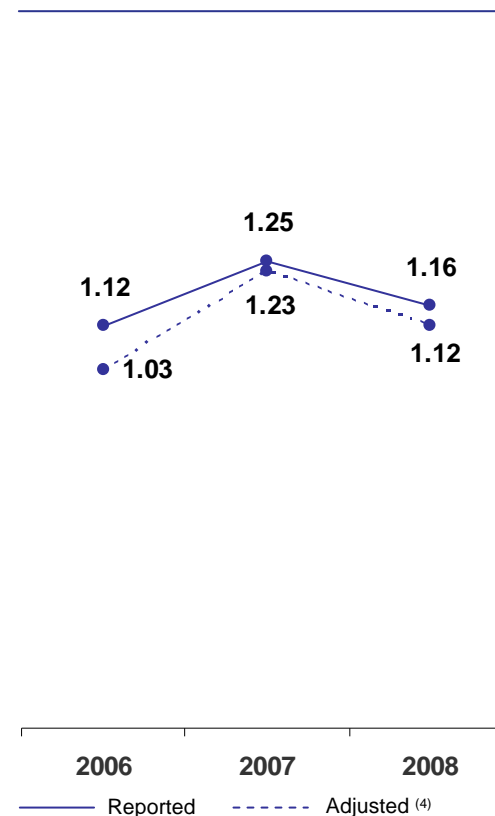
Regular Dividend Payout as a Percentage of Net Income ⁽¹⁾



Total Dividend Yield ⁽²⁾



Net Debt ⁽³⁾/EBITDA
x



Source Bezeq

1. Calculated as regular dividend declared for the fiscal year (NIS 700 MM in 2006, NIS 1,439 MM in 2007 and NIS 1,627 MM in 2008) divided by the net income attributable to Bezeq shareholders in the corresponding fiscal year
2. Calculated as regular and special dividends received during the fiscal year, NIS 1,897 MM in 2006 and NIS 2,562 MM in 2007 (including a NIS 1,800 MM special dividend paid in 2007), divided by the market capitalization as of January 1st of the respective year
3. Defined as short and long-term debentures, loans and borrowings (excluding loans provided by non-controlling interest in a subsidiary) less cash and cash equivalents and short-term investments
4. Adjusted for one-off labor agreement-related items



Bezeq Group Strategic Roadmap

- ‡ **Evolve from an infrastructure-oriented incumbent to a customer-centric integrated telecom services provider**
 - ‡ Limit erosion of telephony revenue by introducing innovative products and services tailored to the needs of specific customer segments

- ‡ **Position Pelephone as the leader in advanced mobile communications in Israel**
 - ‡ New UMTS network underlies the potential for market share and profitability gains

- ‡ **Realize the group's full cost synergies potential**

- ‡ **Invest in technologies and infrastructure with positive ROI that enhance the group's preparedness to cross-sell services in the future**
 - ‡ Deployment of NGN to continue to offer differentiated advanced telecommunications services

- ‡ **Diversified consumer offering subject to regulatory approval**

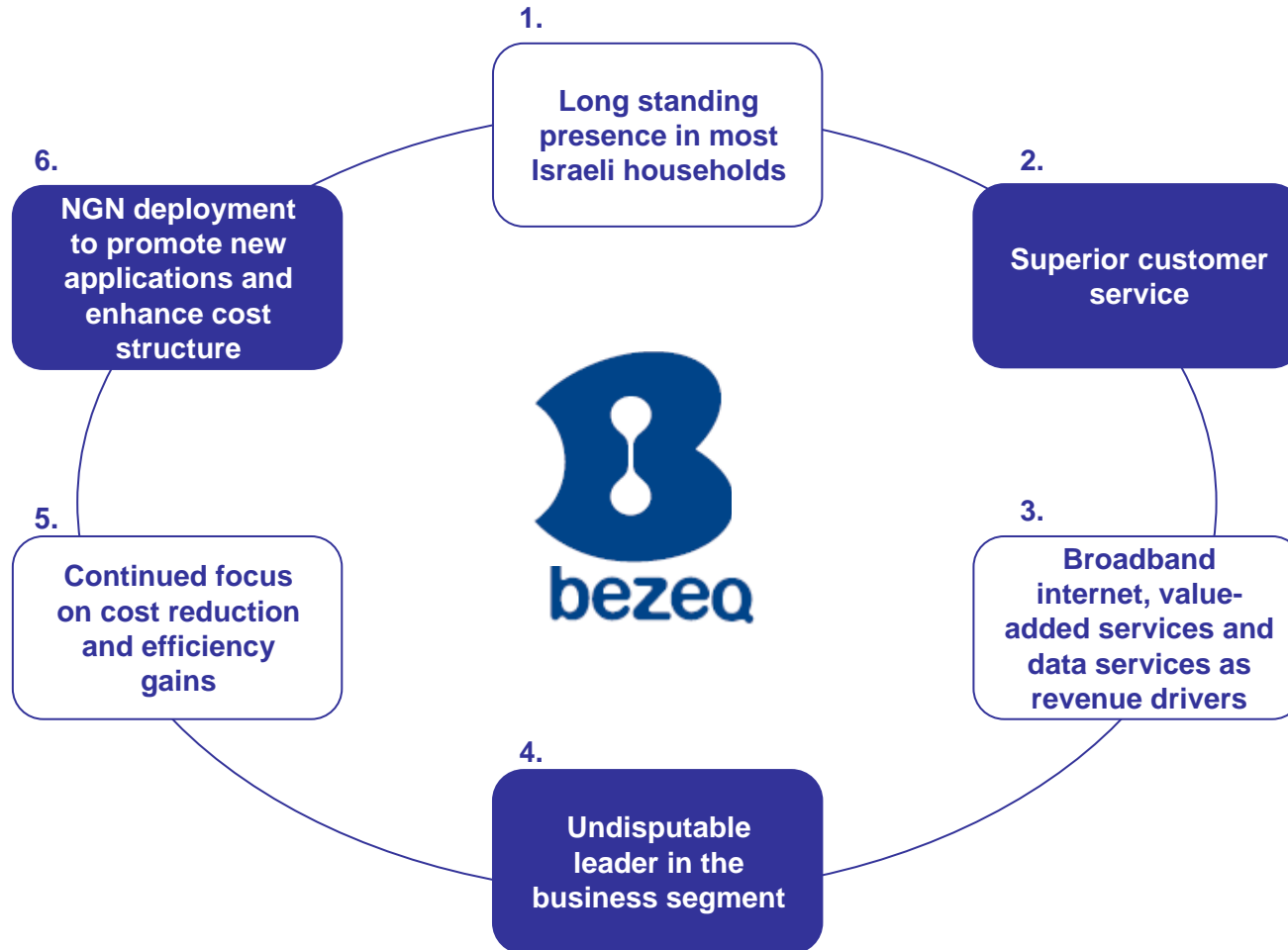




Bezeq Fixed-Line

Fixed-Line Overview

The leading fixed-line services operator in Israel



Fixed-Line 2008 Key Achievements

- ⌚ **Tangible cost reduction and operational efficiency improvements delivering strong EBITDA margin of 42.3% in 2008**
 - ⌚ Wages control and 11.6% reduction in general and operating expenses drive profitability improvements

- ⌚ **Decline in fixed-line telephony revenues partially offset by growth in internet and data communications revenues**
 - ⌚ Continued growth in Internet broadband services, driven by bandwidth upgrades and successful commercial initiatives aimed at both existing and new subscribers, such as household networks
 - ⌚ Controlled decline in telephony access lines despite the introduction of number portability (end of 2007)
 - ⌚ Accelerated growth in data communications and transmission services to business segment

- ⌚ **Modular NGN deployment transforms Bezeq into a more technologically advanced communications provider and provides the platform to offer consumers a wider range of services**



NGN Migration

The NGN project will benefit from further investments in 2009

Rationale

Today

- ⌋ Separate networks for PSTN/ISDN and data

Tomorrow

- ⌋ Migration of voice traffic from TDM to IP
- ⌋ High-speed broadband allow for advanced services offerings
- ⌋ Convergence-based services, enabling “Connected everywhere on any device”
- ⌋ Reduced time to market for new service introduction

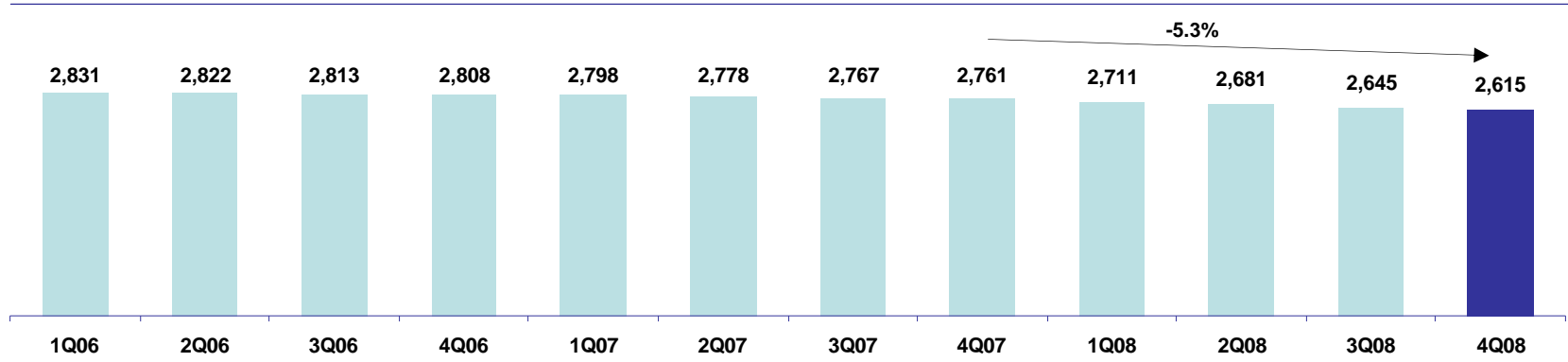
The Project

- ⌋ Fiber-to-the-Curb
- ⌋ Easy access to ducts/limited civil engineering work
- ⌋ Modular deployment
 - ⌋ Expect to reach a meaningful part of Israeli consumers by 2010

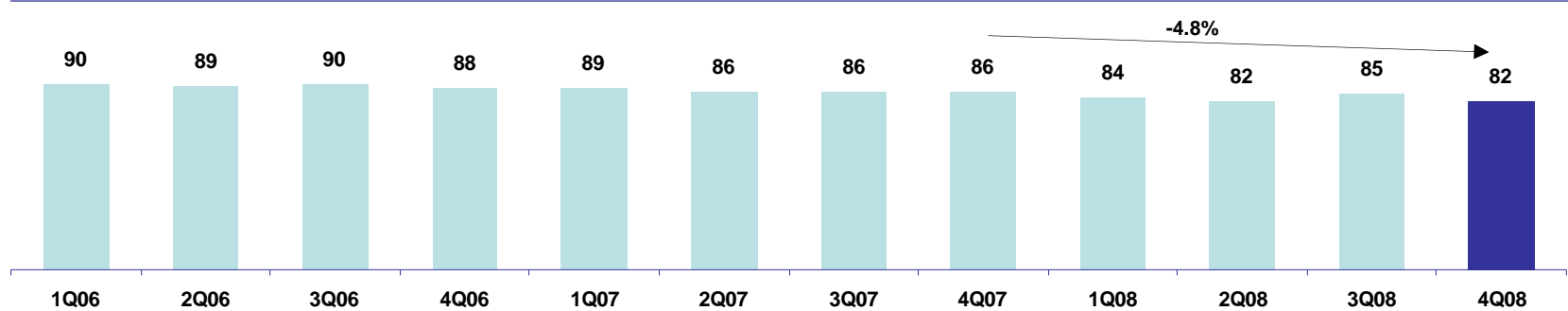
Domestic Telephony KPIs

Continued erosion in number of lines and ARPL⁽¹⁾

Access Lines
'000



ARPL⁽¹⁾
NIS/Month



1. Not including revenues from data communications and transmission services, services to communications providers, and contract and other work; retroactively adjusted to include revenue from installation fees and nominal figures instead of normalized ones

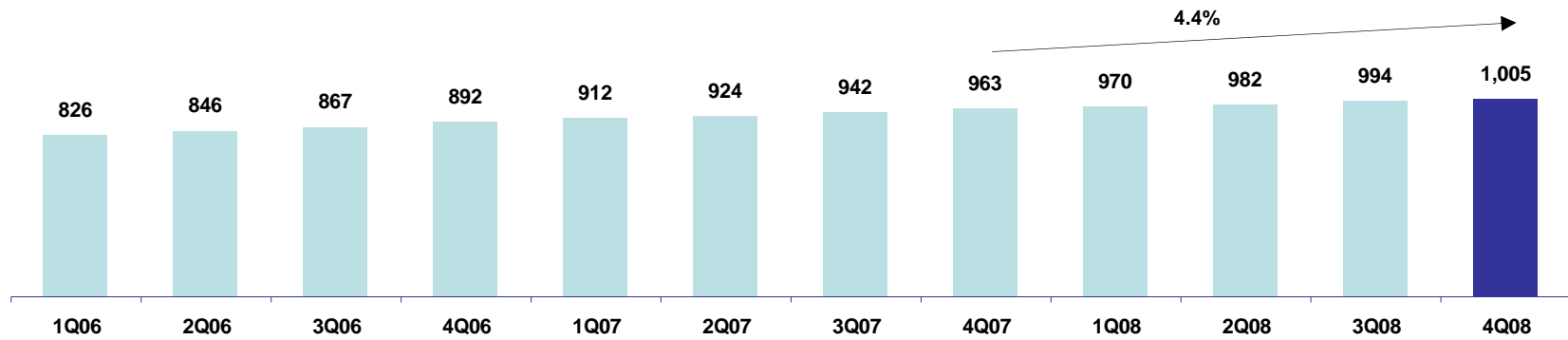


Broadband KPIs

Broadband subscribers continue to grow at healthy rates, with ARPU broadly stable

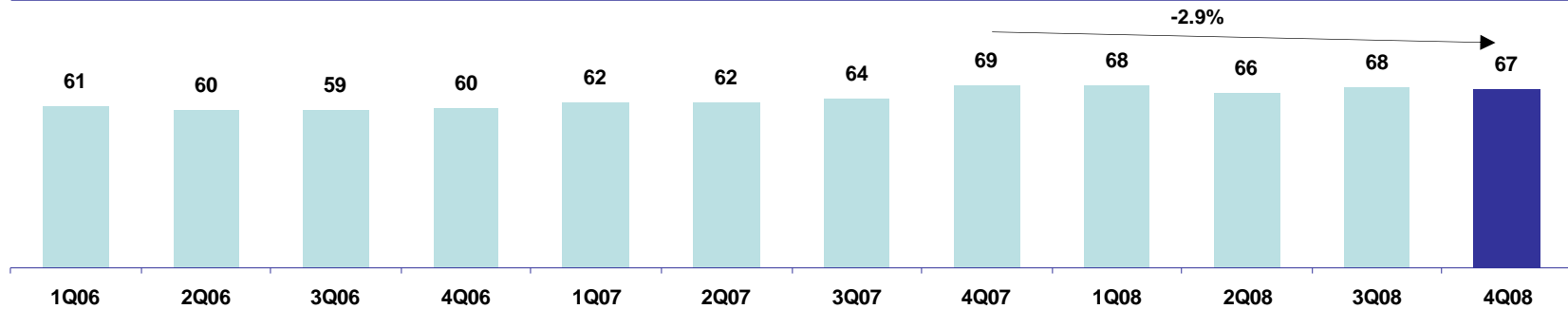
Broadband Subscribers

'000



ARPU⁽¹⁾

NIS/Month

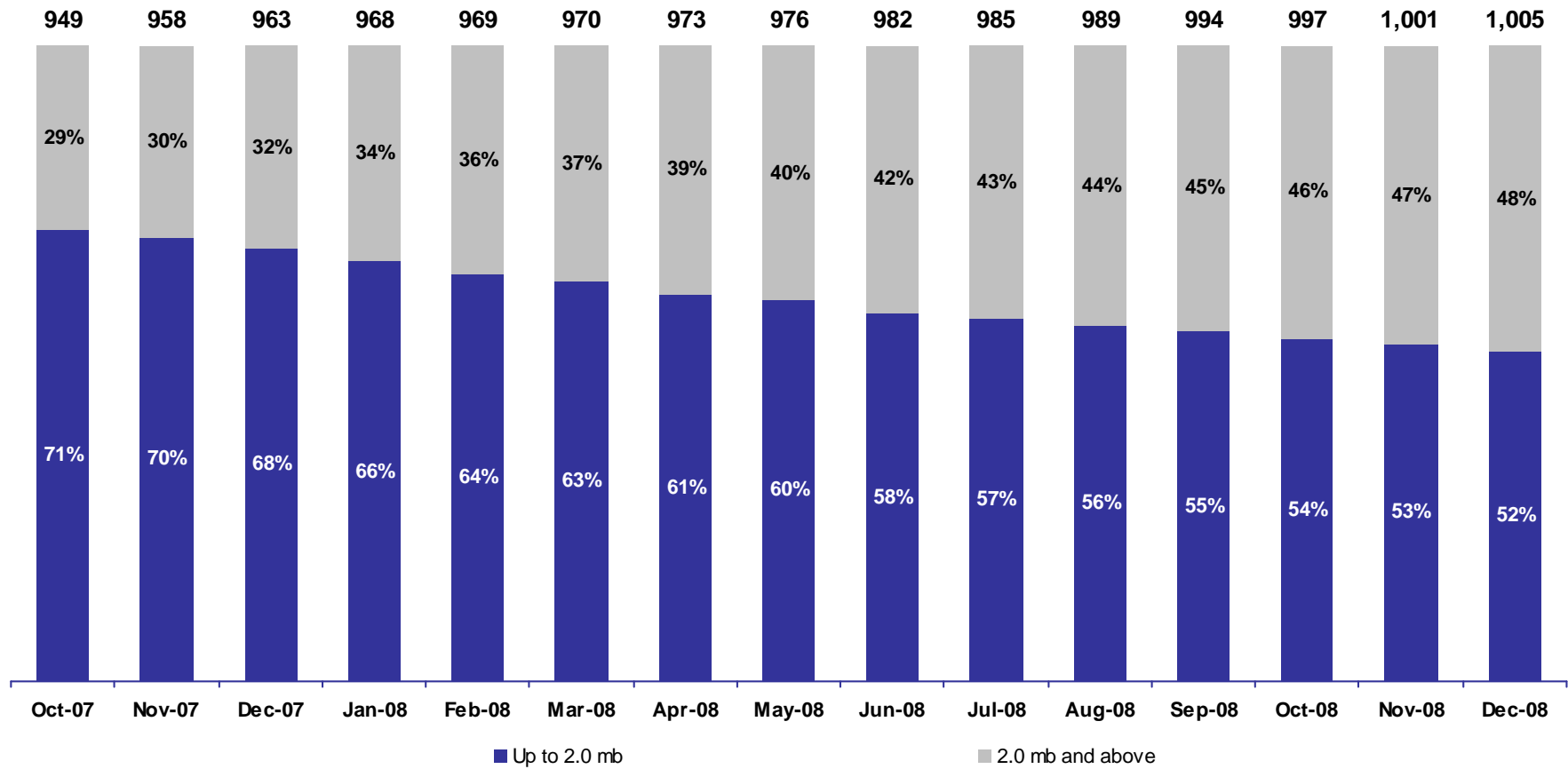


1. Retroactively adjusted to include revenue from home networks and internet dial up

Broadband KPIs

Bandwidth upgrade momentum supporting ARPU resilience

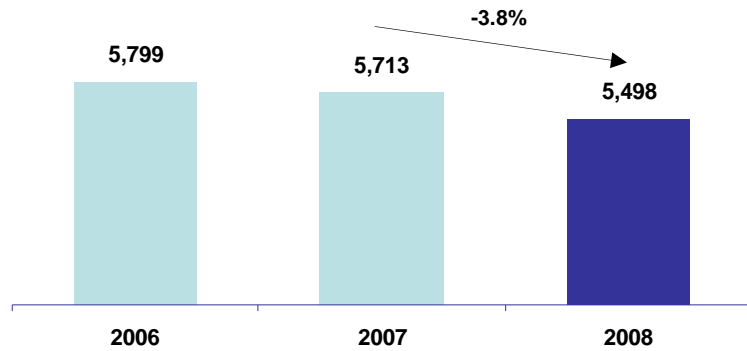
Broadband Subscribers Split by Bandwidth
'000



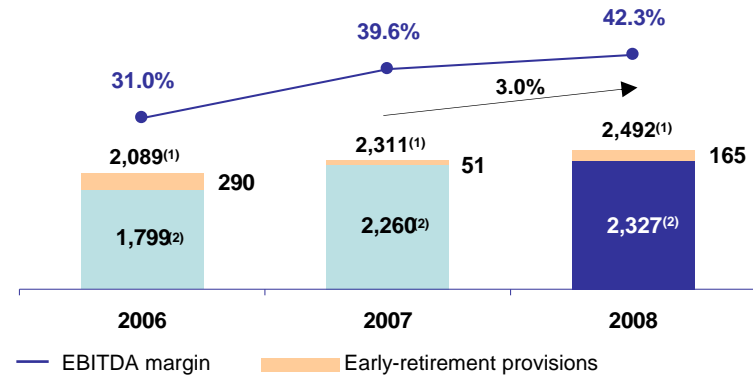
Fixed-Line Financial Performance

Robust EBITDA and free cash flow performance despite continued erosion in revenues

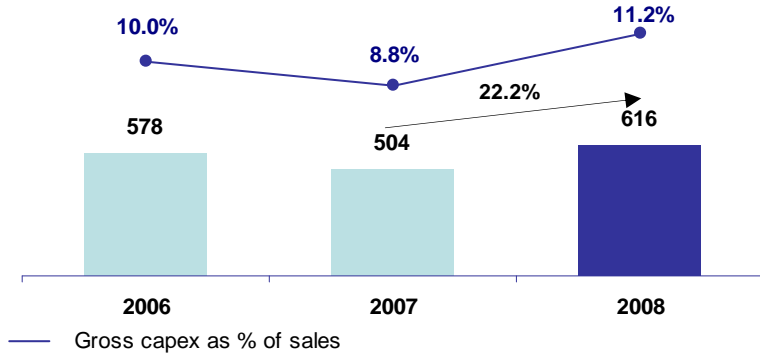
Fixed-Line Revenue
NIS MM



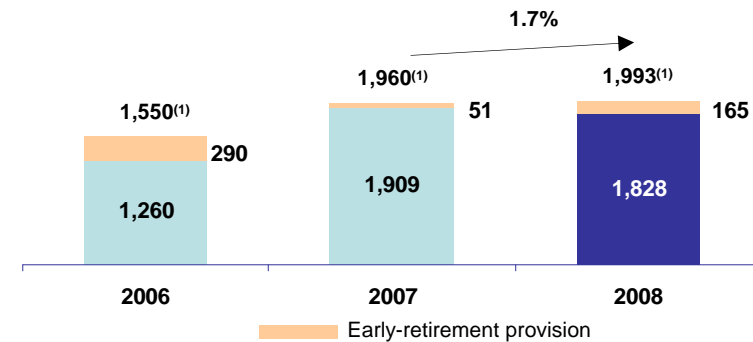
Fixed-Line EBITDA
NIS MM



Fixed-Line Gross Capex
NIS MM



Fixed-Line EBITDA – Net Capex
NIS MM



1. Adjusted for one-off labor agreement-related items
2. Includes costs related to employee option (NIS 287MM in 2006, zero in 2007 and NIS 75MM in 2008)

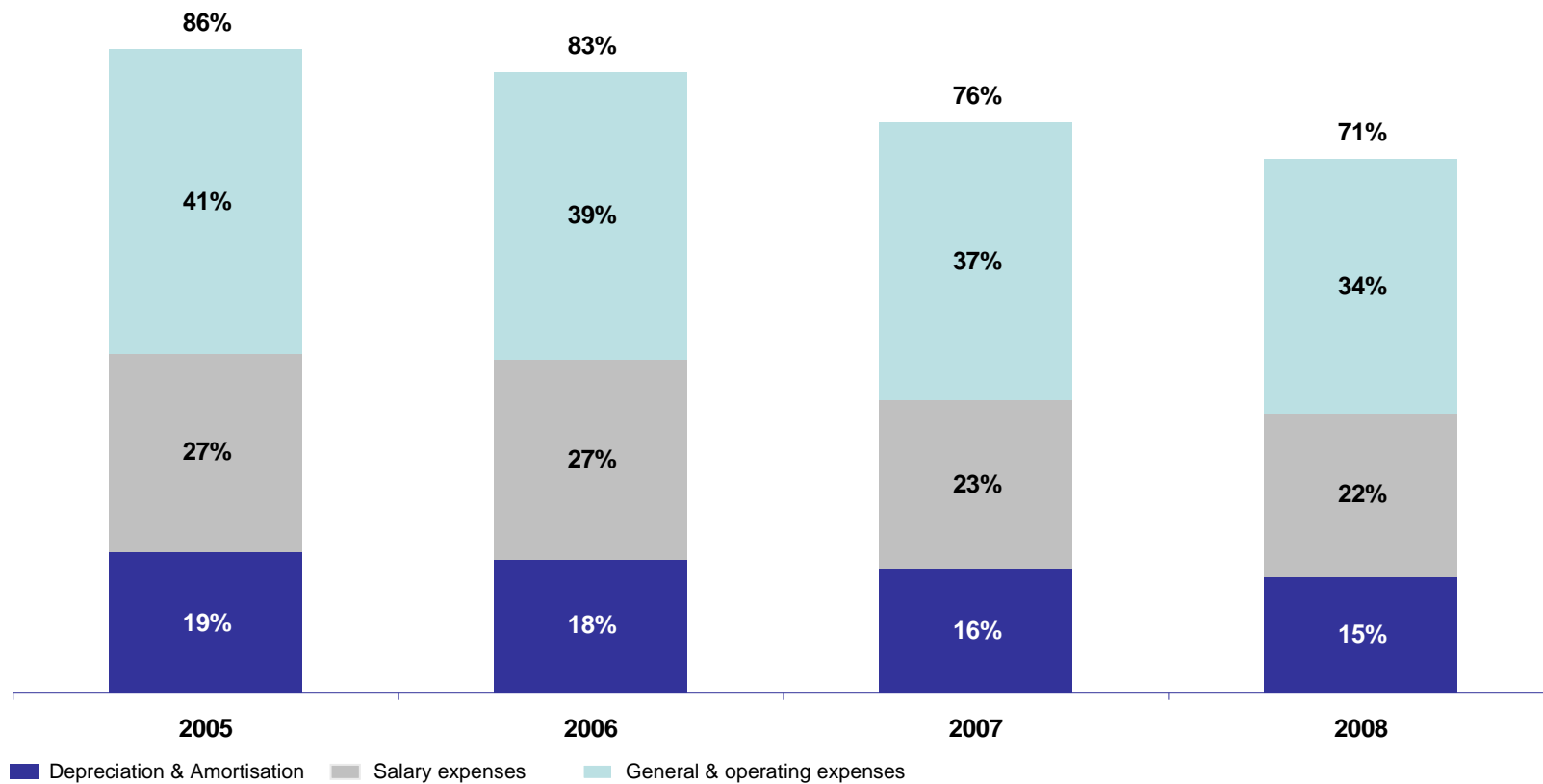


Cost Structure Development

Continued reduction of the cost base supports high profitability levels

Cost Structure⁽¹⁾

% of revenues



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

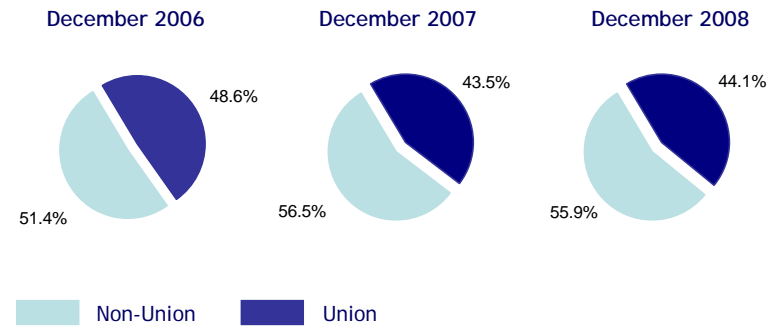
Labor Agreement Update

Headcount flexibility – Bezeq has met its early-retirement goals and continues to improve its efficiency

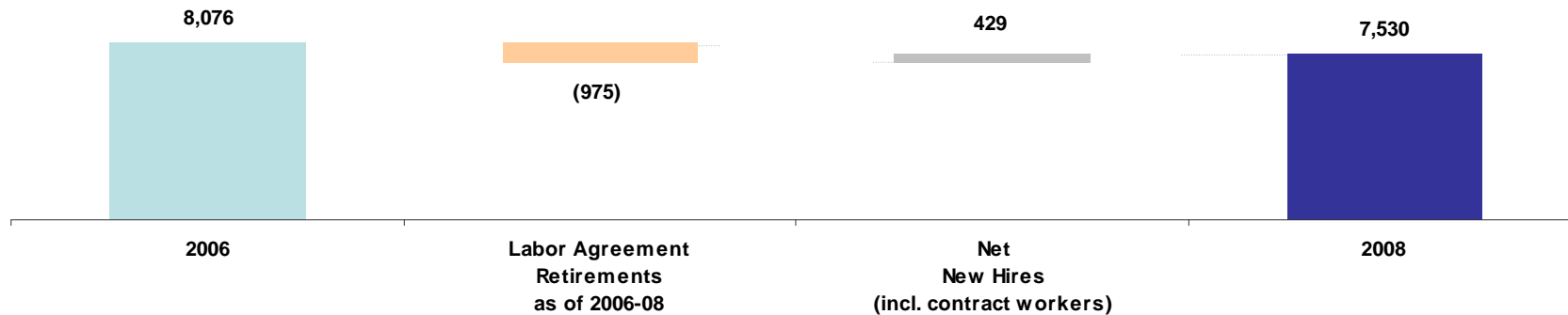
Framework of the Labor Agreement

- ⋮ Retirement of 975 permanent employees in 2006-08
- ⋮ Potential additional retirement of 1,225 permanent employees between 2009 and 2013
- ⋮ Bezeq approved the early retirement of 245 employees in 2009
- ⋮ Bezeq has the flexibility to decide the exact number of retirees

Overview of Fixed Line Workforce



Labor Agreement Implementation (FTE's)



Fixed Line Strategic Roadmap

! Focus on growth in broadband, data and value-added services

- ! Maintain leadership position in broadband and data
- ! Leverage broadband infrastructure to launch new value-added services
- ! Migrate business customers from basic services to managed solutions

! Focus on customer service to improve customer retention

! Reduce operating costs

- ! Implementation of programs to streamline workforce and increase productivity

! Manage capital resources effectively

- ! Investment shift from legacy to new systems to develop innovative services

! Next Generation Network to position Bezeq to compete in a future of converged communications while enhancing its profitability potential





Bezeq
International

Bezeq International Overview

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



Bezeq International 2008 Key Achievements

- ⌚ **Leading market share in Internet services, direct-dial international calls and PBX**

- ⌚ **Revenue growth in core business areas such as ISP, outgoing calls and enterprise solutions offsets decline in hubbing and PBX**
 - ⌚ Revenues from enterprise integration solutions continue to grow, reinforcing Bezeq International's market position
 - ⌚ Growth in revenues driven by increase in bandwidth and value-added services

- ⌚ **Focus on cost control continue to deliver profitability improvement**

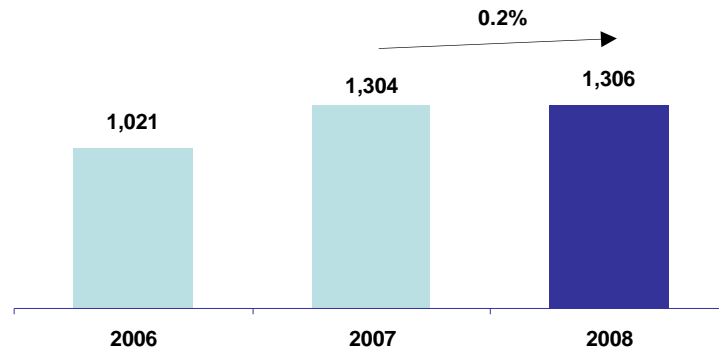
- ⌚ **Bezeq International continues to lead in quality of service and market perceptions**



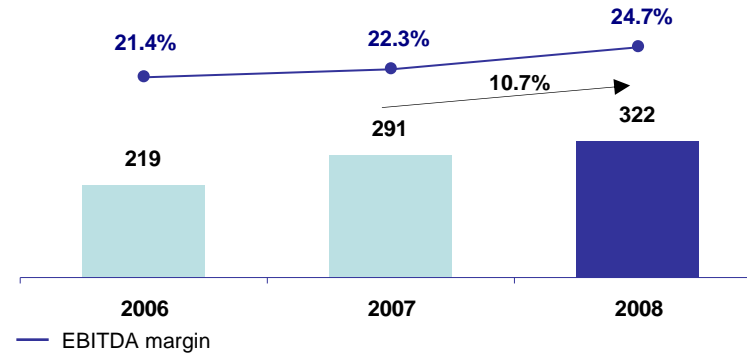
Bezeq International Financial Performance

Stable revenues combined with improved EBITDA margins and steady free cash flow

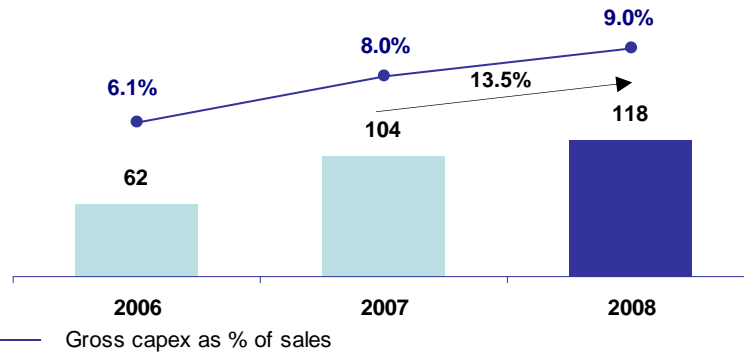
Bezeq International Revenue
NIS MM



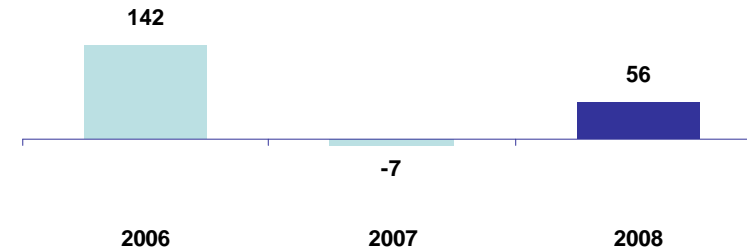
Bezeq International EBITDA
NIS MM



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

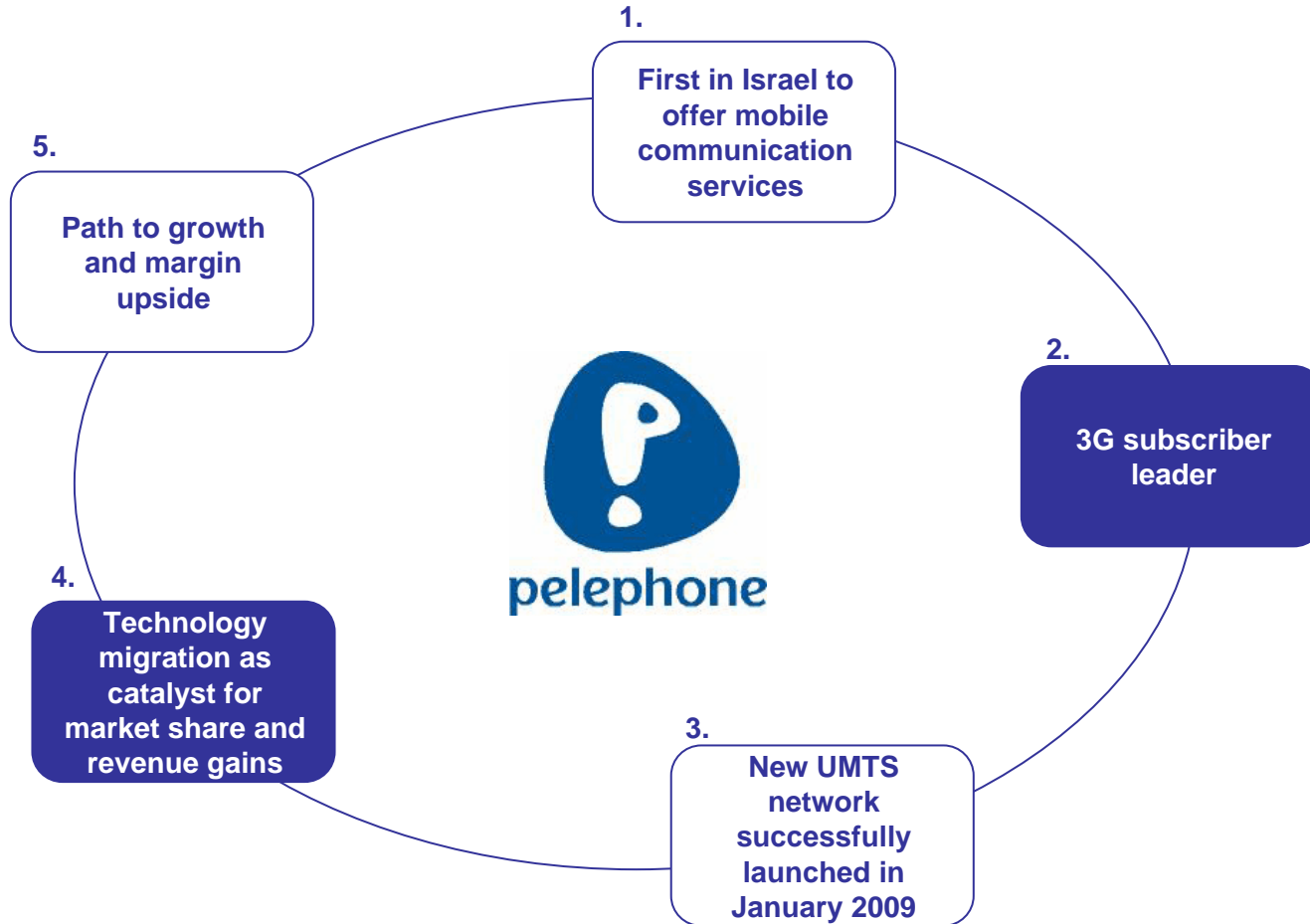




pelephone

Pelephone Overview

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



Pelephone Key Achievements in 2008

- ‡ **Successful completion of UMTS network, the most advanced mobile infrastructure in Israel**
 - ‡ National coverage achieved at network launch at the end of January 2009

- ‡ **Stable revenue at NIS 4,713 MM**
 - ‡ Supported by growth in value added services, with data representing 16.3% of cellular service revenue

- ‡ **Record EBITDA at NIS 1,456 MM (30.9% margin)**
 - ‡ Lower marketing expenses, higher margins on handset sales

- ‡ **Market leadership in 3G subscribers**
 - ‡ 1.15 MM 3G subscribers as of year-end, driving net additions and higher revenues from data, content and value-added services



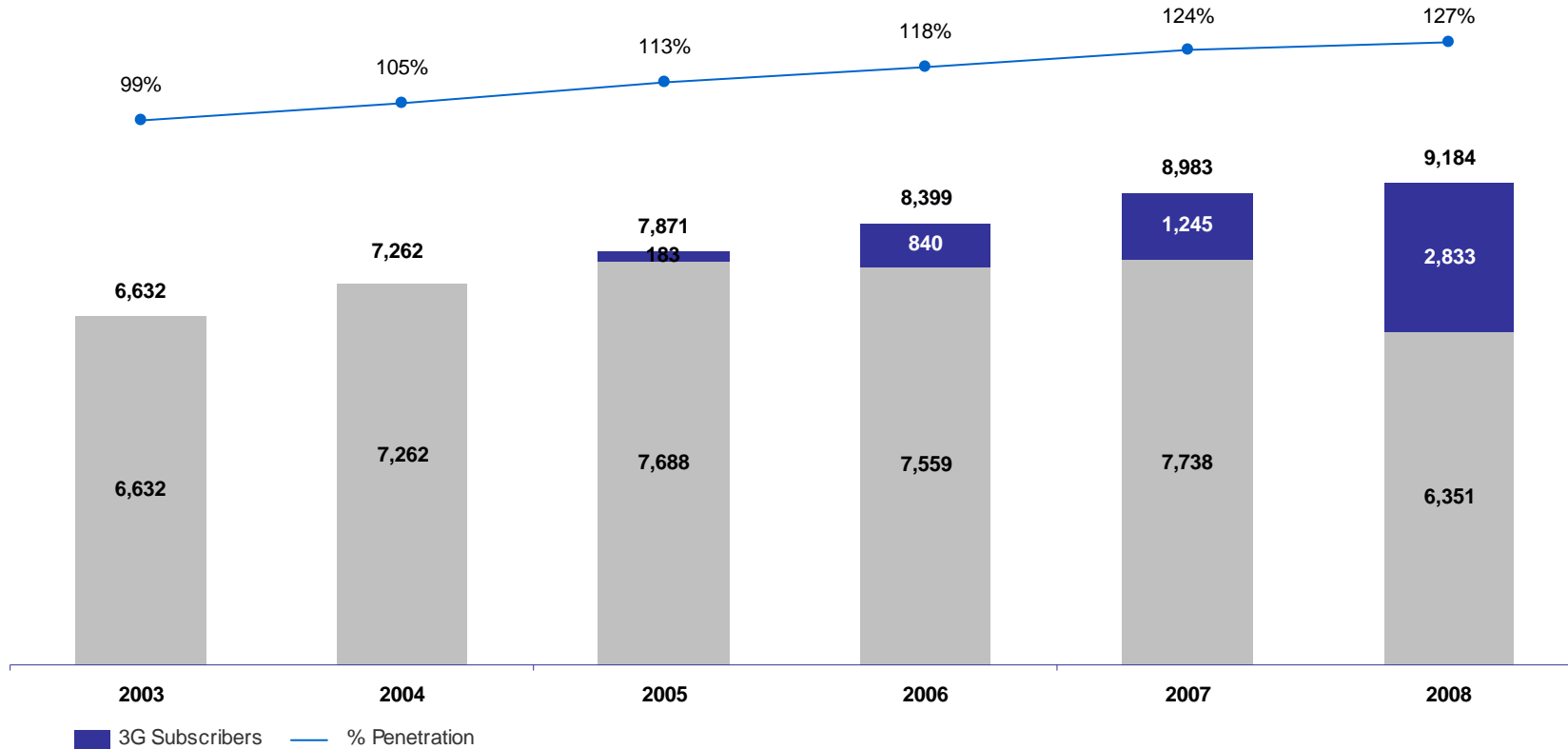
Israeli Mobile Communications Market

Moderated subscriber growth in a saturated market

Mobile Subscribers

'000

'03-08 CAGR: 6.7%



Source: Company filings and BMI (March 2009)



Market Share Developments

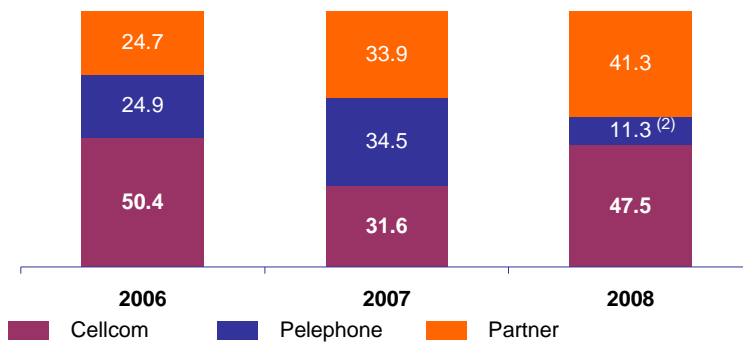
A strong contender in an evenly split mobile market

Competitive Landscape

Operator	Launch	Ownership	Network
pelephone	1986	Bezeq	CDMA, HSPA in 2009
	1995	IDB	HSDPA
	1999	Hutchison	HSDPA
	1997	Motorola	IDEN

Net Adds (1)

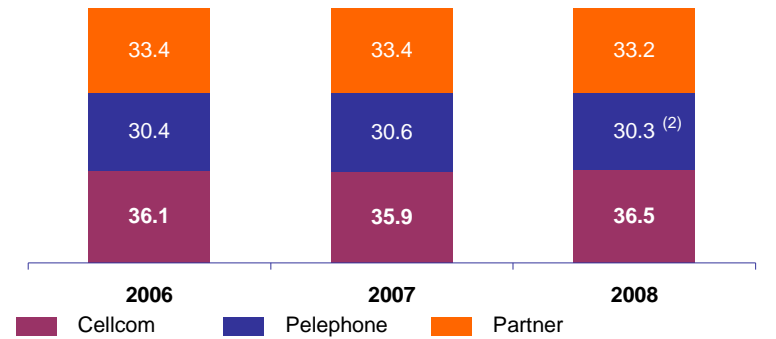
%



Source Company filings

Subscribers (1)

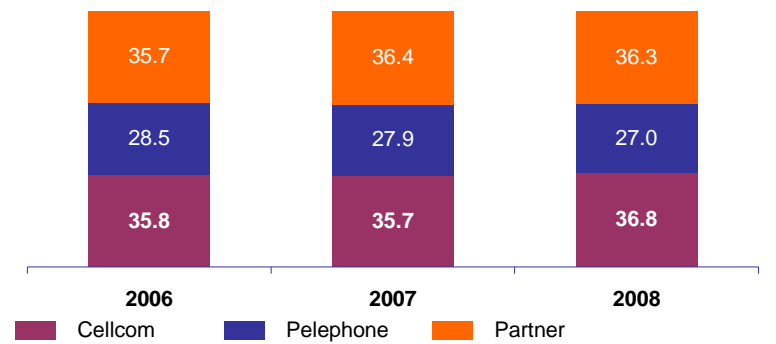
%



Source Company filings

Total Revenue (1)

%



Source Company filings

1. Excluding MIRS
 2. Including Pelephone write-off of 92K subscribers who only receive SMS



Network Migration Rationale

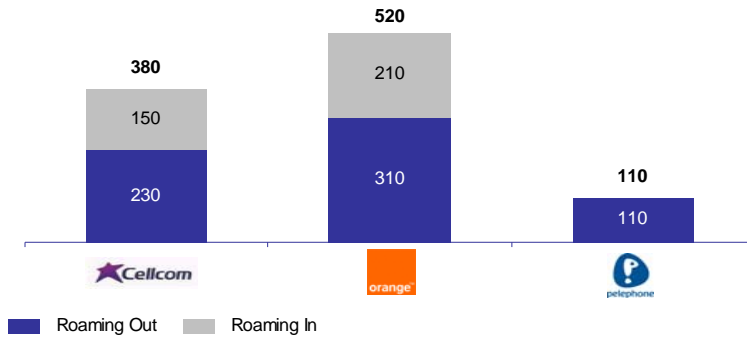
The CDMA technology had hindered Pelephone's commercial development

CDMA Issues

- ⚡ Limited variety of handset vendors, excluding popular brands such as Nokia and Sony Ericsson
- ⚡ No roaming – for Pelephone subscribers traveling and from visitors using GSM handsets
- ⚡ Limited data and content capabilities: no video calls, no music-oriented handsets
- ⚡ Higher costs of CDMA spare parts

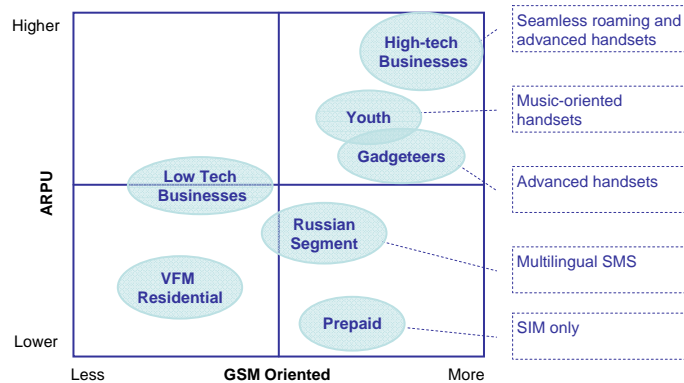
Roaming Revenue

2007, NIS MM



Source Pelephone

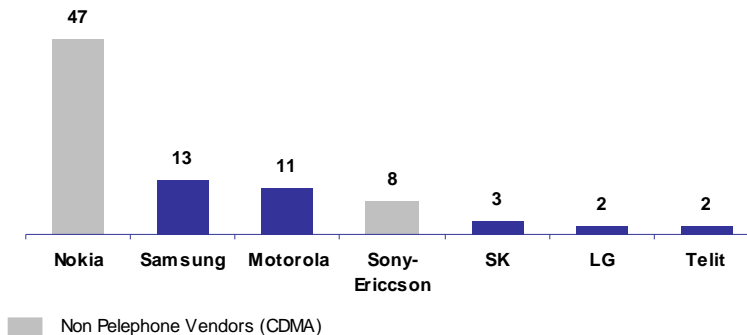
New Customer Segments



Source Pelephone

Favorite Handset Brands in Israel

% of Survey Respondents



Source Market Watch Survey (March 2007)

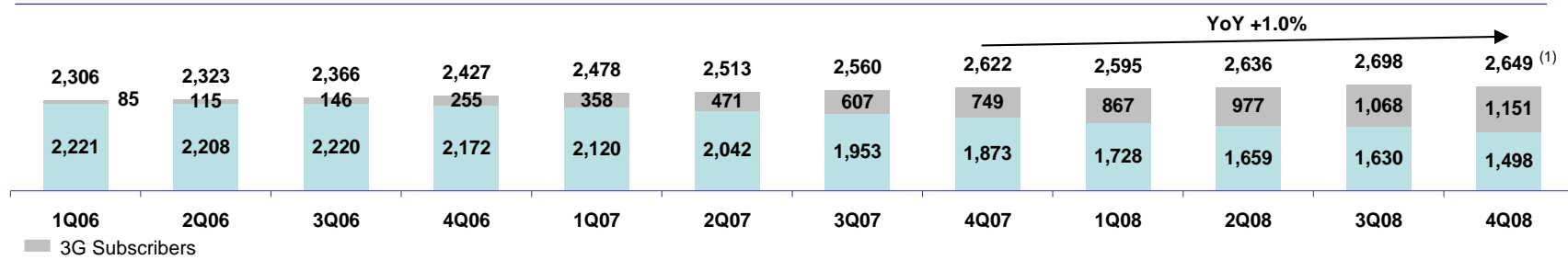


Telephone KPIs

1% YoY increase in subscribers driven by 3G additions; substantial uptake in usage of data and VAS

Subscribers

'000



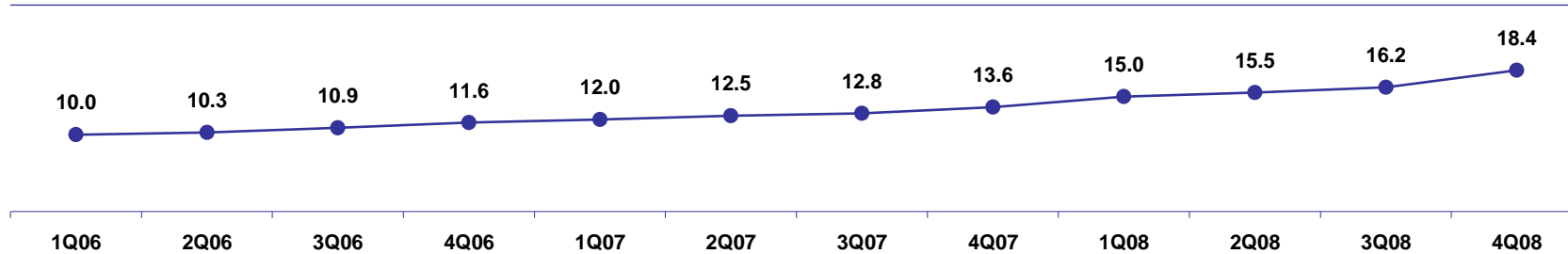
ARPU

NIS/Month



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

%



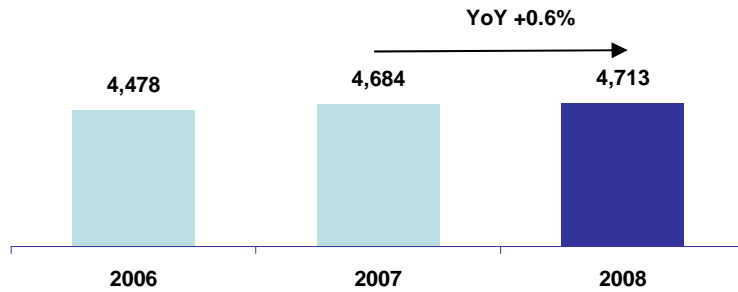
1. Including write-off of 92K subscribers who only receive SMS
 2. Includes telephony and data services but excludes sale of equipments



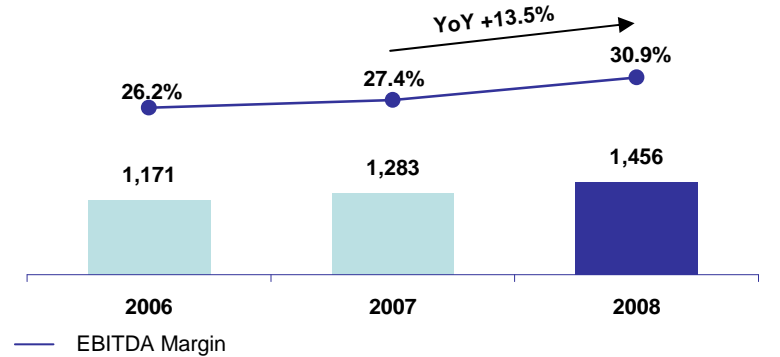
Pelephone Financial Performance

EBITDA margin uplift despite 4Q08 drop, HSPA investments impacting Capex

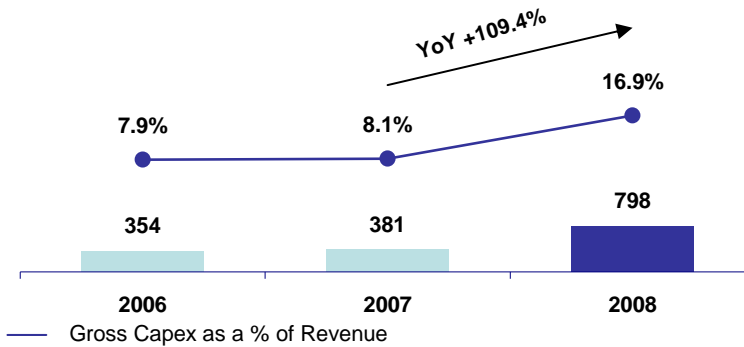
Pelephone Revenue
NIS MM



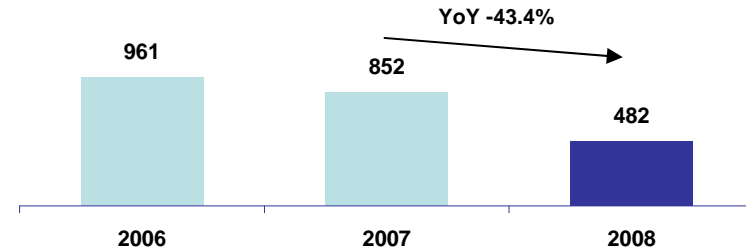
Pelephone EBITDA
NIS MM



Pelephone Gross Capex
NIS MM



Pelephone Free Cash Flow ⁽¹⁾
NIS MM

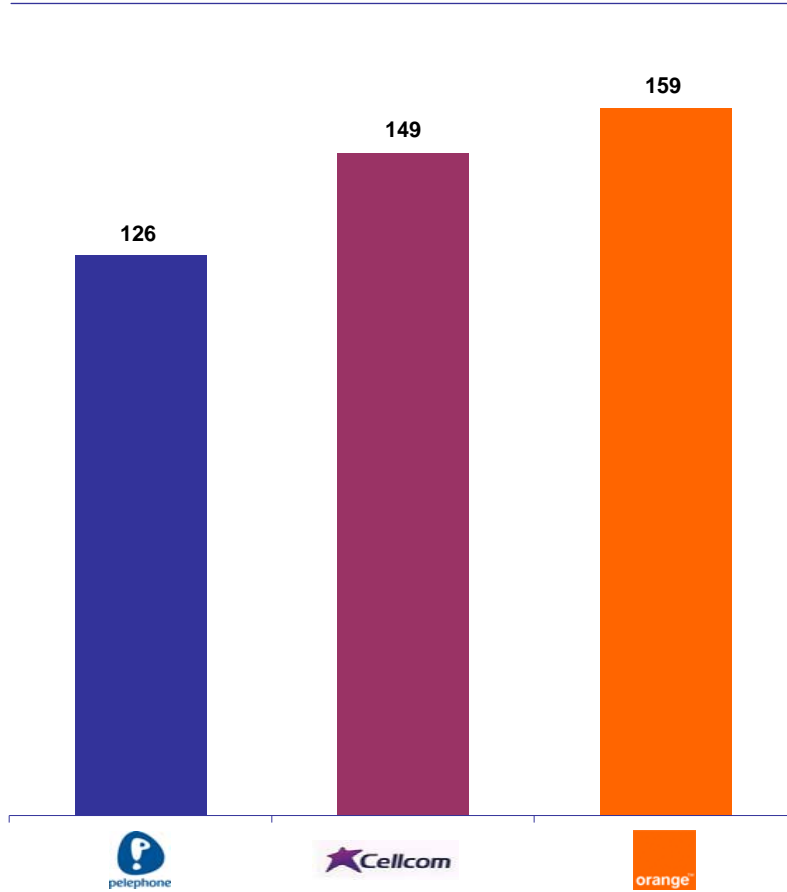


1. Free cash flow defined as Cash Flow from Operations – Net Capex

Further Upside Potential

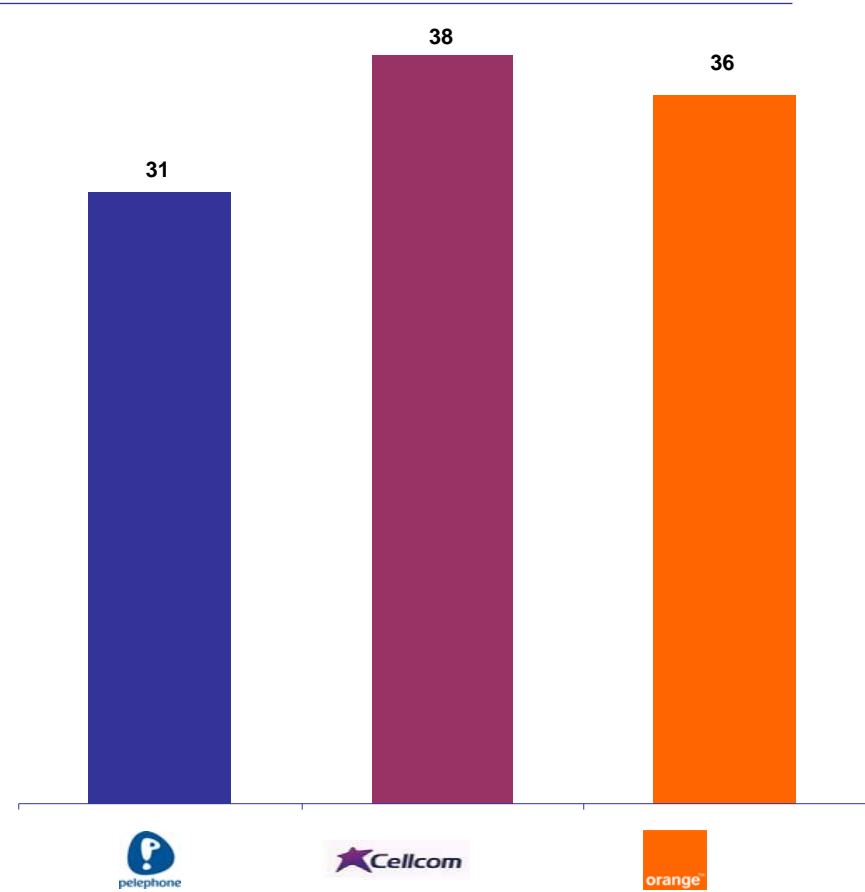
Network migration will act as a catalyst for Pelephone to increase revenue and profitability

ARPU
2008, Monthly, NIS



Source: Company filings

EBITDA Margin
2008, %



Source: Company filings



Pelephone Strategic Roadmap

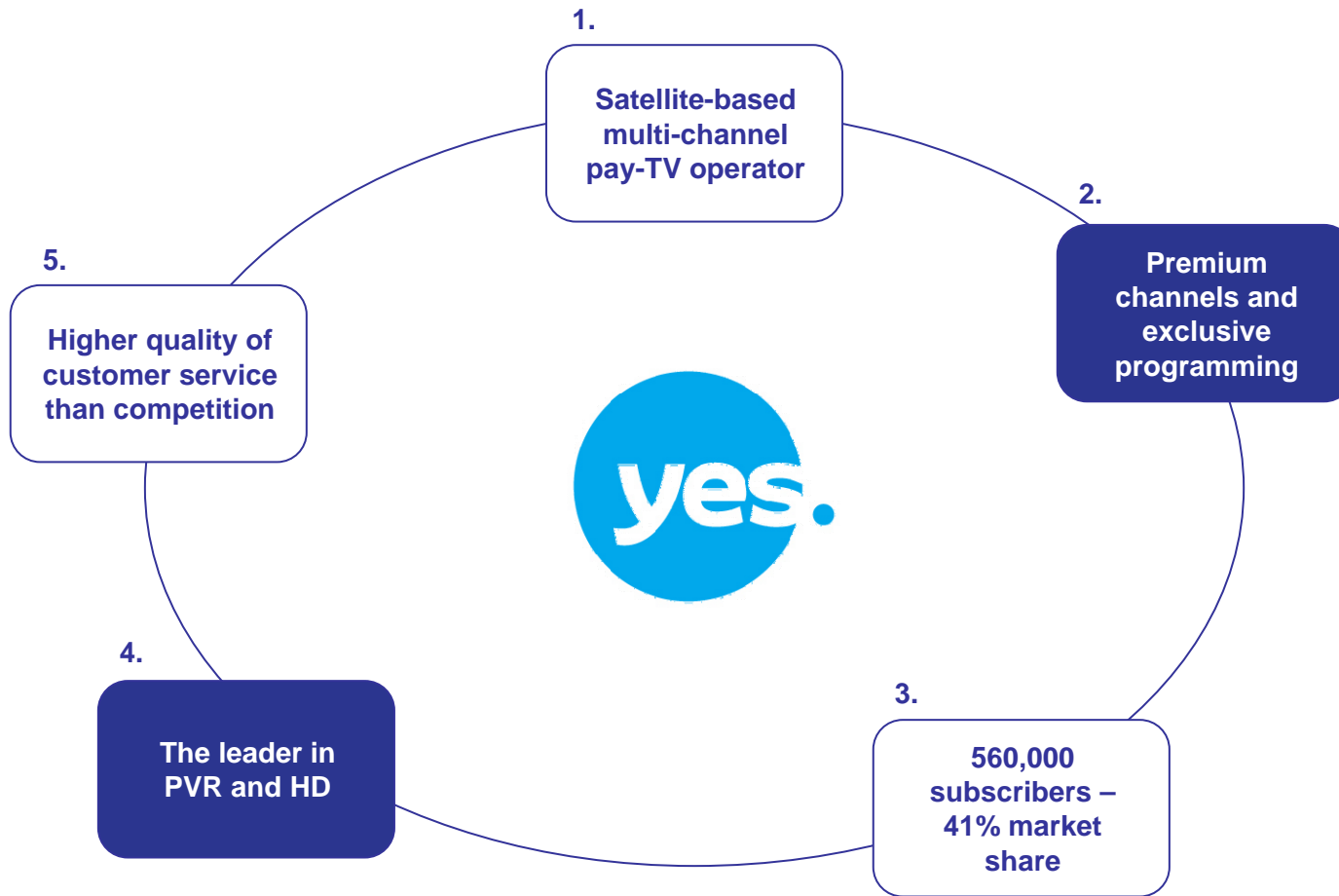
- ‡ **Leverage new UMTS network to enhance Pelephone's commercial appeal and strengthen its leadership position in the 3G market**
 - ‡ Expand addressable market and ability to tap more profitable segments
 - ‡ Introduce a wide variety of handsets from leading suppliers
 - ‡ Grow roaming revenues
- ‡ **Position Pelephone as the market leader in advance mobile communications**
 - ‡ Launch of new services including data for business as well as multimedia and entertainment services
- ‡ **Maintain customer focus and high quality of customer service**
 - ‡ Enlarged distribution and sales network due to the recent agreement with Superpharm
 - ‡ Focus on customer loyalty to offset the introduction of number portability and possible competition from MVNOs
- ‡ **Continue to implement efficiency measures to improve profitability**





yes Overview

The premium pay-TV operator in Israel



yes Key Achievements in 2008

- ‡ **Profitable, before shareholder loan-related expenses, for the first time**

- ‡ **Revenue increased 6.9% to NIS 1,513 MM**
 - ‡ ARPU expanded by 5.1%, driving revenue growth
 - ‡ Uptake in YESMax (PVR) and content sales
 - ‡ 11k net subscriber additions, gaining market share from cable competitor
 - ‡ Market share in terms of revenues up to 37.7% from 36.8%
 - ‡ 33% of new subscribers join YESMax with 3-year commitment

- ‡ **EBITDA margin improved to 28.2% in FY 08 and 32.4% in Q4 08**
 - ‡ Focus on operating costs, decrease in space segments expenses

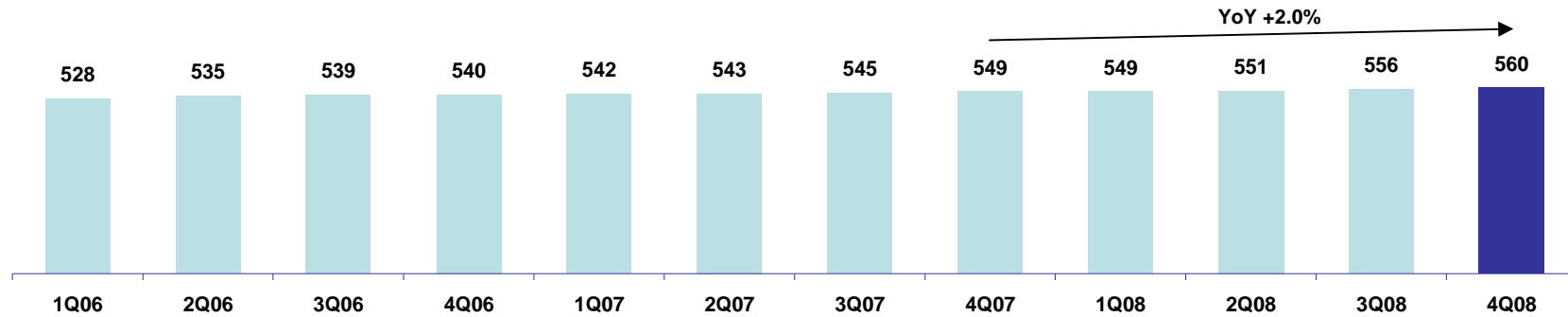


yes KPIs

Stable subscriber base, continued YoY ARPU improvement

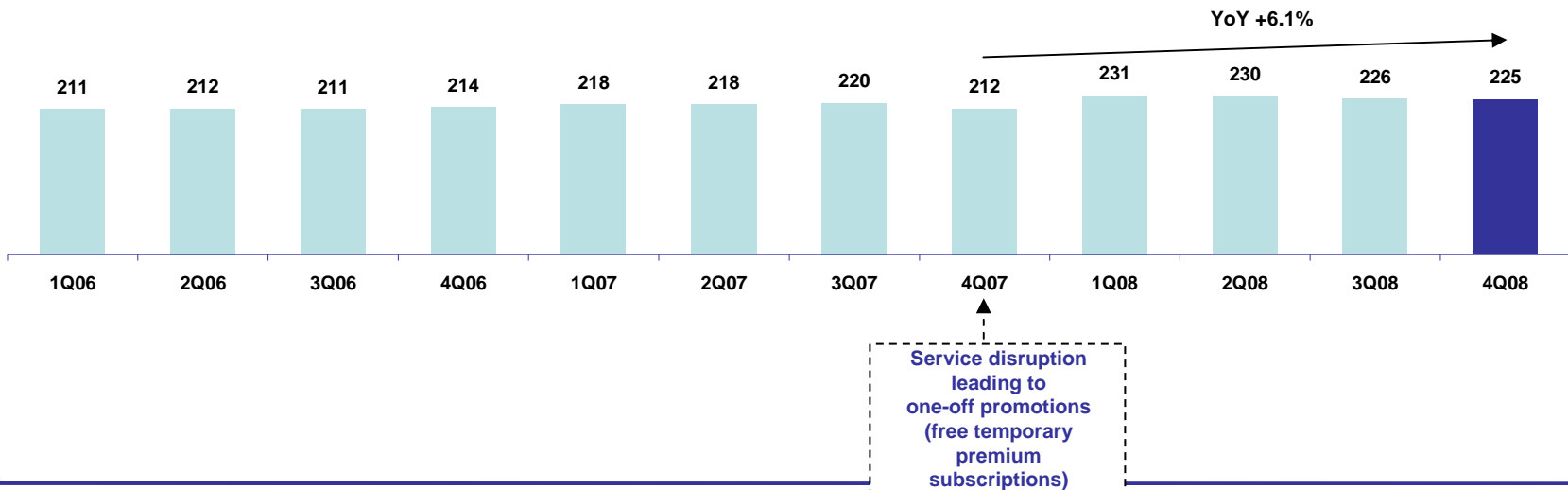
Subscribers

'000, end of period



ARPU

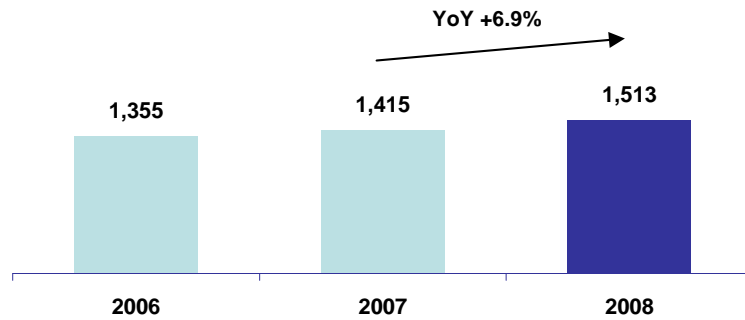
NIS/Month, avg per qtr



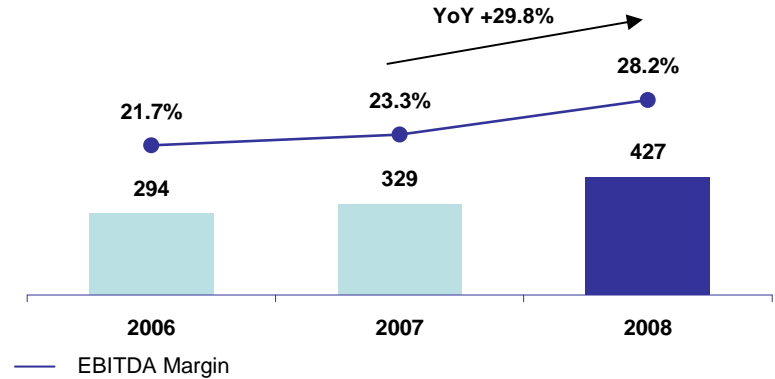
yes Financial Performance

Record quarterly EBITDA level and margin; back to free cash flow generation

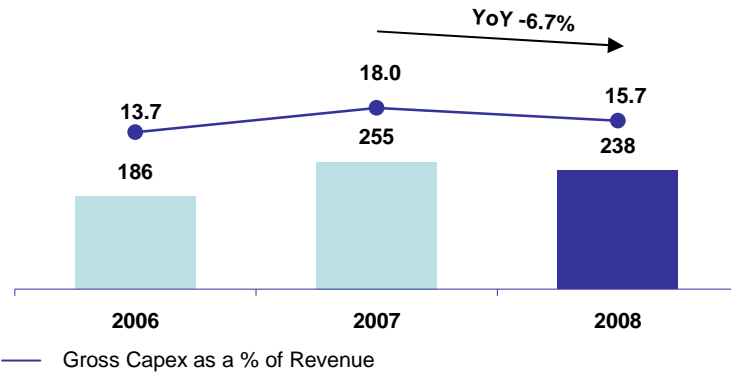
yes Revenue
NIS MM



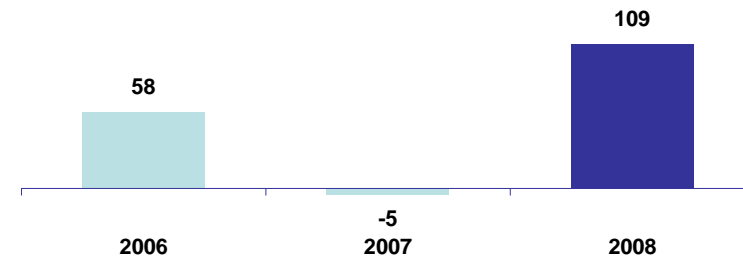
yes EBITDA
NIS MM



yes Gross Capex
NIS MM



yes Free Cash Flow⁽¹⁾
NIS MM



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

yes Strategic Roadmap

- ‡ Reinforce perception by customers of superior value proposition
 - ‡ Exclusive content: series, movies as well as Israeli programming; increase thematic offer to reach niche segments
 - ‡ Enhanced TV viewing experience: personalized and interactive
 - ‡ Increase PVR penetration and HD offers
 - ‡ Launch VOD services and yes over IPTV

- ‡ Strong focus on revenue and client base growth
 - ‡ Offer, when possible, bundle of telecommunications products including TV, telephone and Internet

- Continue implementing efficiency measures (such as savings in space segments)





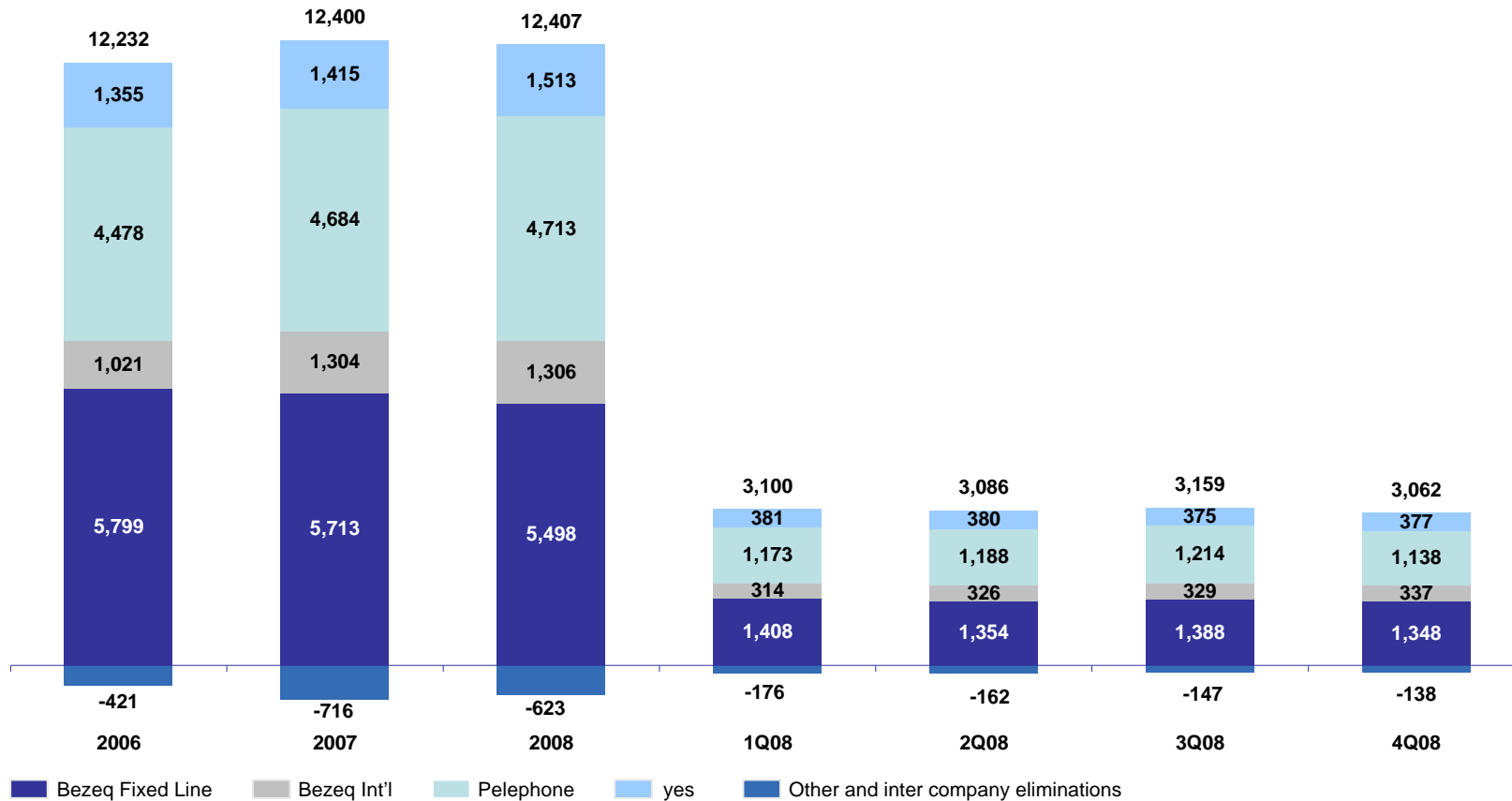
Group Financial Review

Revenue Development

Revenue at the subsidiaries net of intercompany eliminations

Group Revenue
NIS MM

'06-08 CAGR: +0.7%

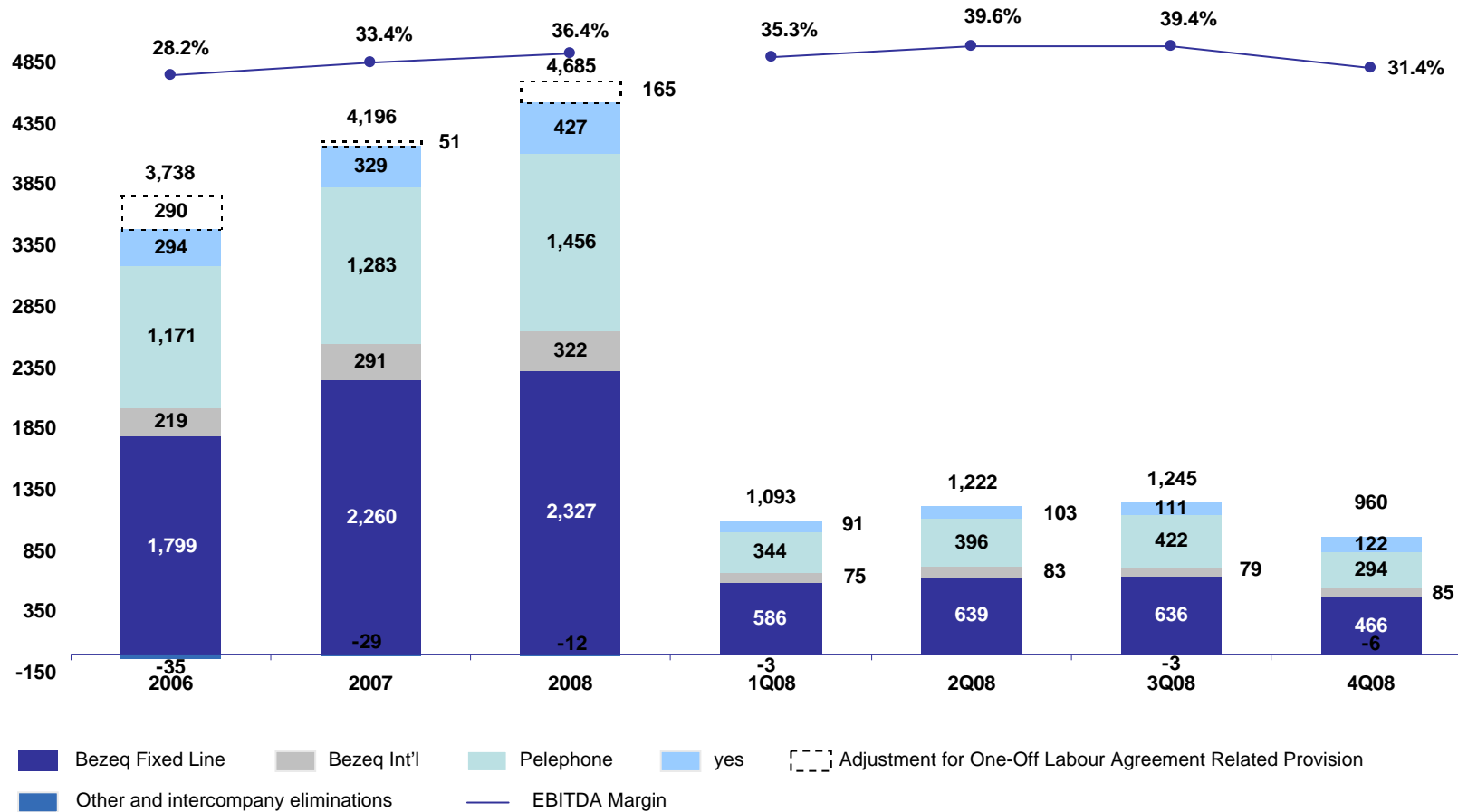


EBITDA Development

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

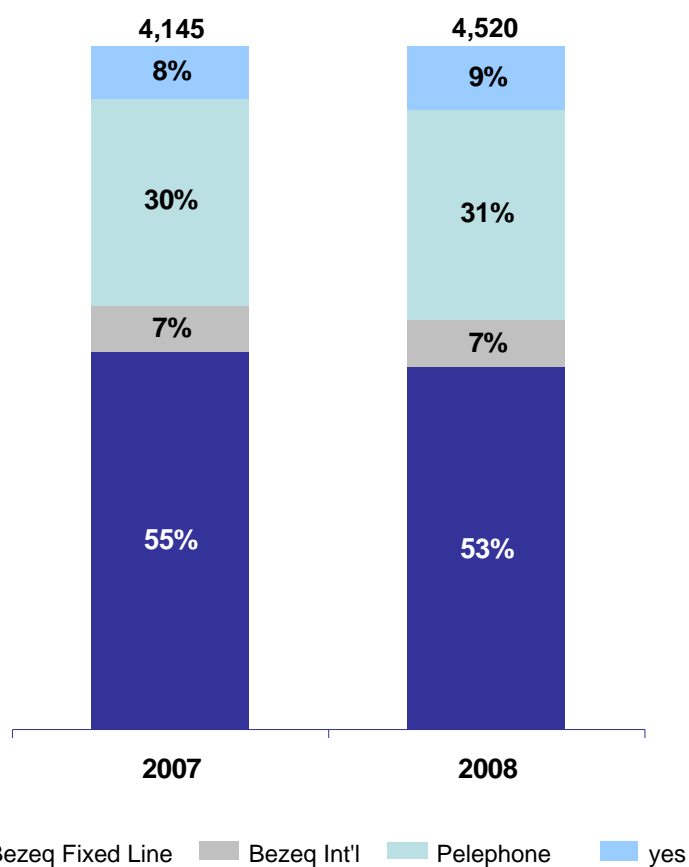
Group EBITDA
NIS MM

'06-08 CAGR: +11.7%



EBITDA Mix and EBITDA Margins

Subsidiaries' Contribution to Consolidated EBITDA
NIS MM



EBITDA Margin per Division

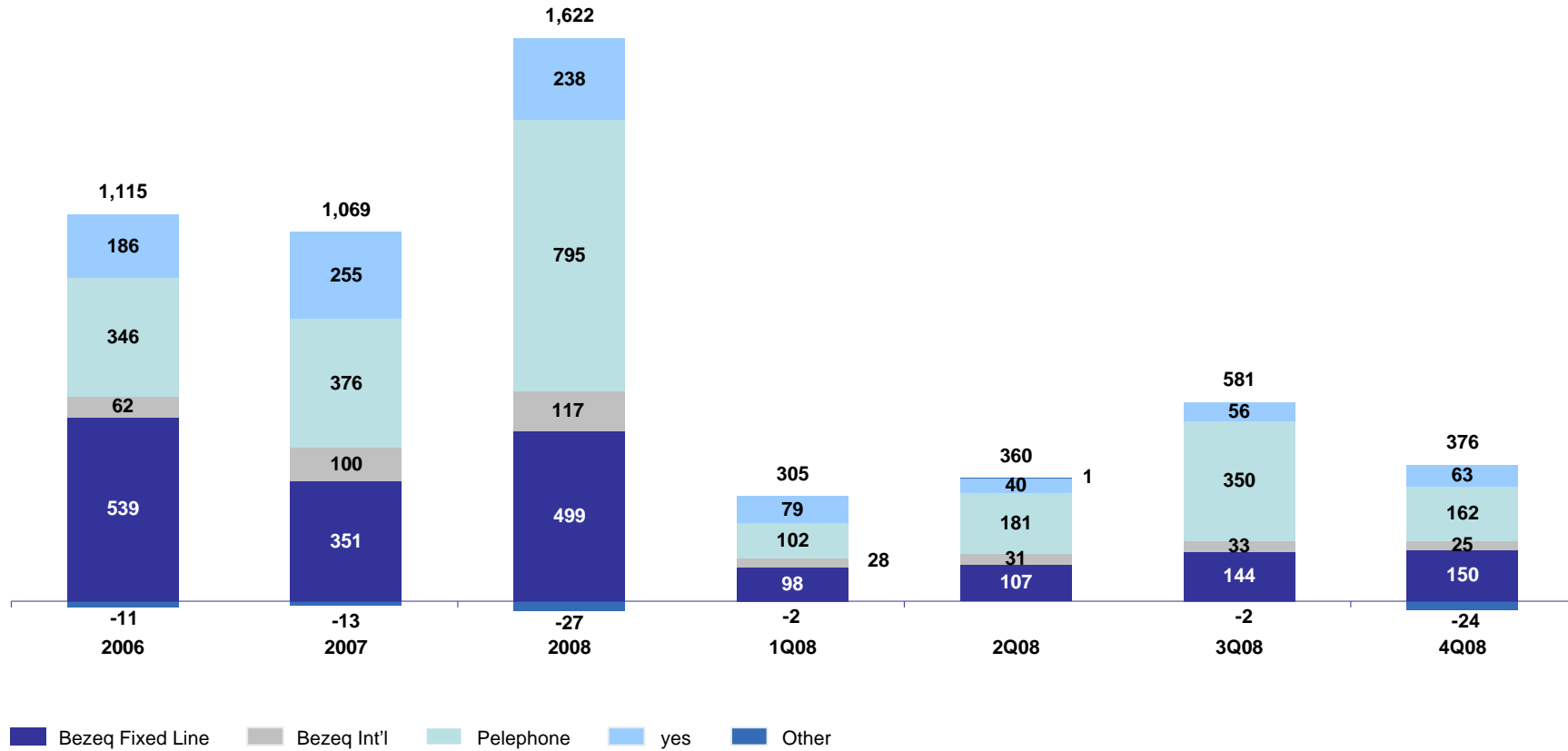
	2007	2008	Change (p.p.)
Bezeq Fixed Line	39.6%	42.3%	+2.7 p.p.
Bezeq International	22.3%	24.7%	+ 2.4 p.p.
Pelephone	27.4%	30.9%	+ 3.5 p.p.
yes	23.3%	28.2%	+ 4.9 p.p.
Bezeq Group	33.4%	36.4%	+ 3.0 p.p.



Capex Development

Net Capex increase reflects ongoing deployment of the UMTS network and NGN

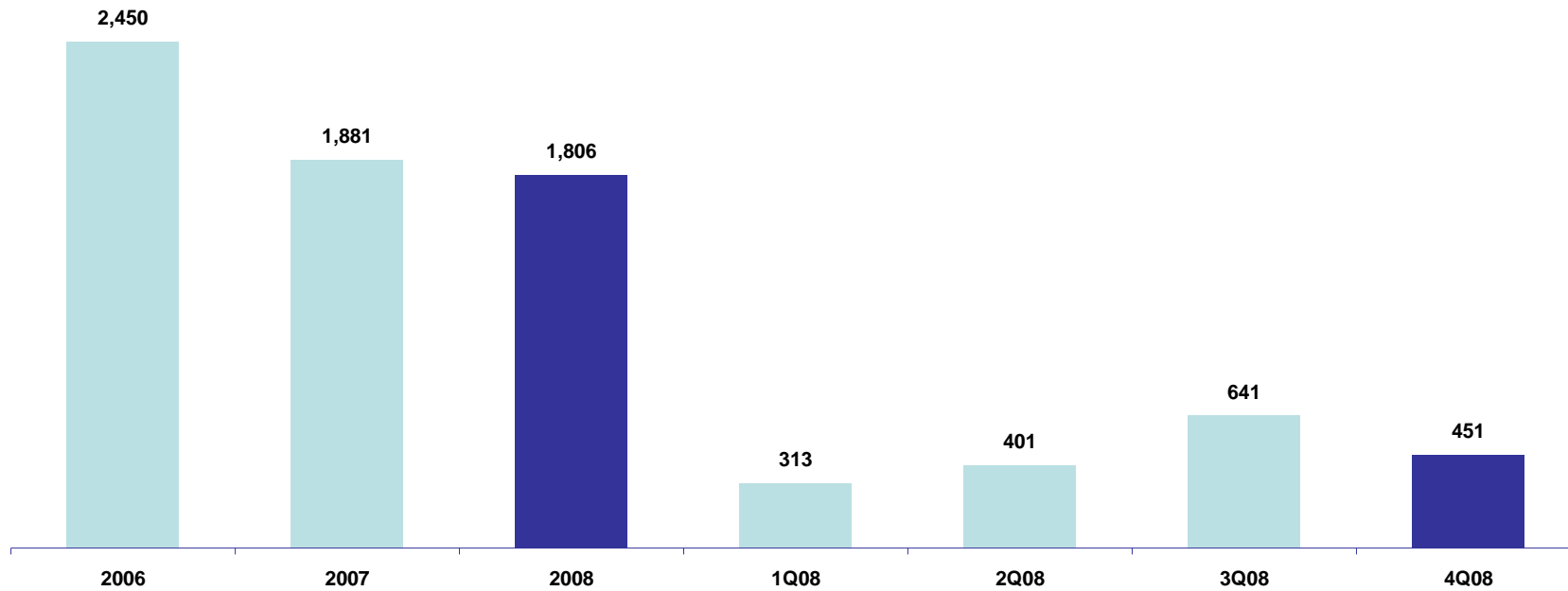
Group Net Capex Development
NIS MM



Free Cash Flow Development

Strong and steady cash flow generation driven by EBITDA performance, working capital management and despite network investments

Group Free Cash Flow ⁽¹⁾
NIS MM



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

Bezeq Group 2009 Financial Outlook

- ⌚ **The challenges faced by the global economic environment have translated into a slowdown in the Israeli market**
 - ⌚ Bezeq is actively monitoring the potential impact of this slowdown on its business

- ⌚ **Despite the challenging economic backdrop, in 2009 Bezeq aims to maintain EBITDA, operating cash flows and gross capital expenditures close to the levels of 2008**
 - ⌚ This goal 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

- ⌚ **Bezeq plans to continue to invest in key strategic projects in 2009**
 - ⌚ Pelephone's UMTS network - successfully launched with national coverage at the end of January 2009
 - ⌚ Next Generation Network (NGN) - modular deployment approach, expanding NGN coverage to reach a meaningful part of Israeli households during 2010





Thank You.

For additional information,
please visit our website:

www.bezeq.co.il