



Bezeq Group

First Quarter 2008
Results

Investor Presentation
May-June 2008

Forward-Looking Information and Statement

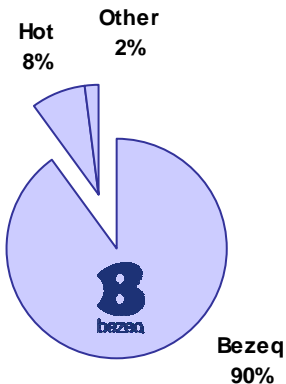
This presentation contains general data and information as well as forward looking statements about Bezeq The Israel Telecommunication Corp., Ltd (“Bezeq”). Such statements, along with explanations and clarifications presented by Bezeq’s representatives, include expressions of management's expectations 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.



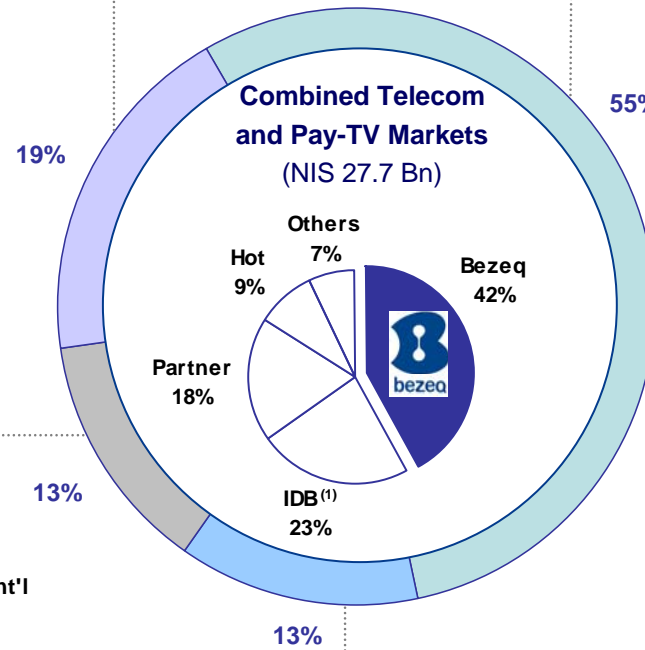
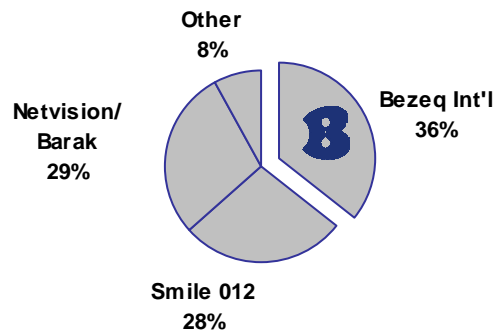
Israeli Telecom and Pay-TV Markets

Bezeq Group commands a 42% share of the combined markets in 2007

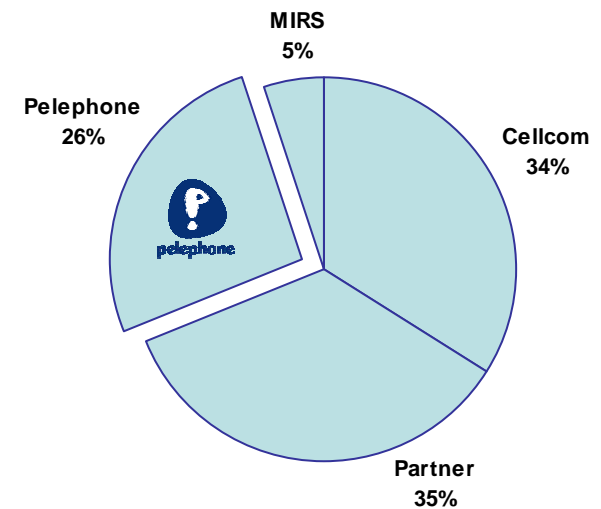
Fixed Line, Broadband Infrastructure, and Data Communications
(NIS 5.3 Bn)



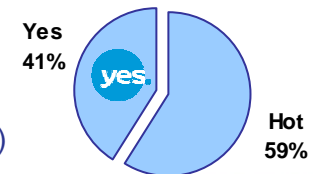
ILD, ISP, and Enterprise
(NIS 3.6 Bn)



Mobile
(NIS 15.3 Bn)



Pay-TV
(NIS 3.5 Bn)



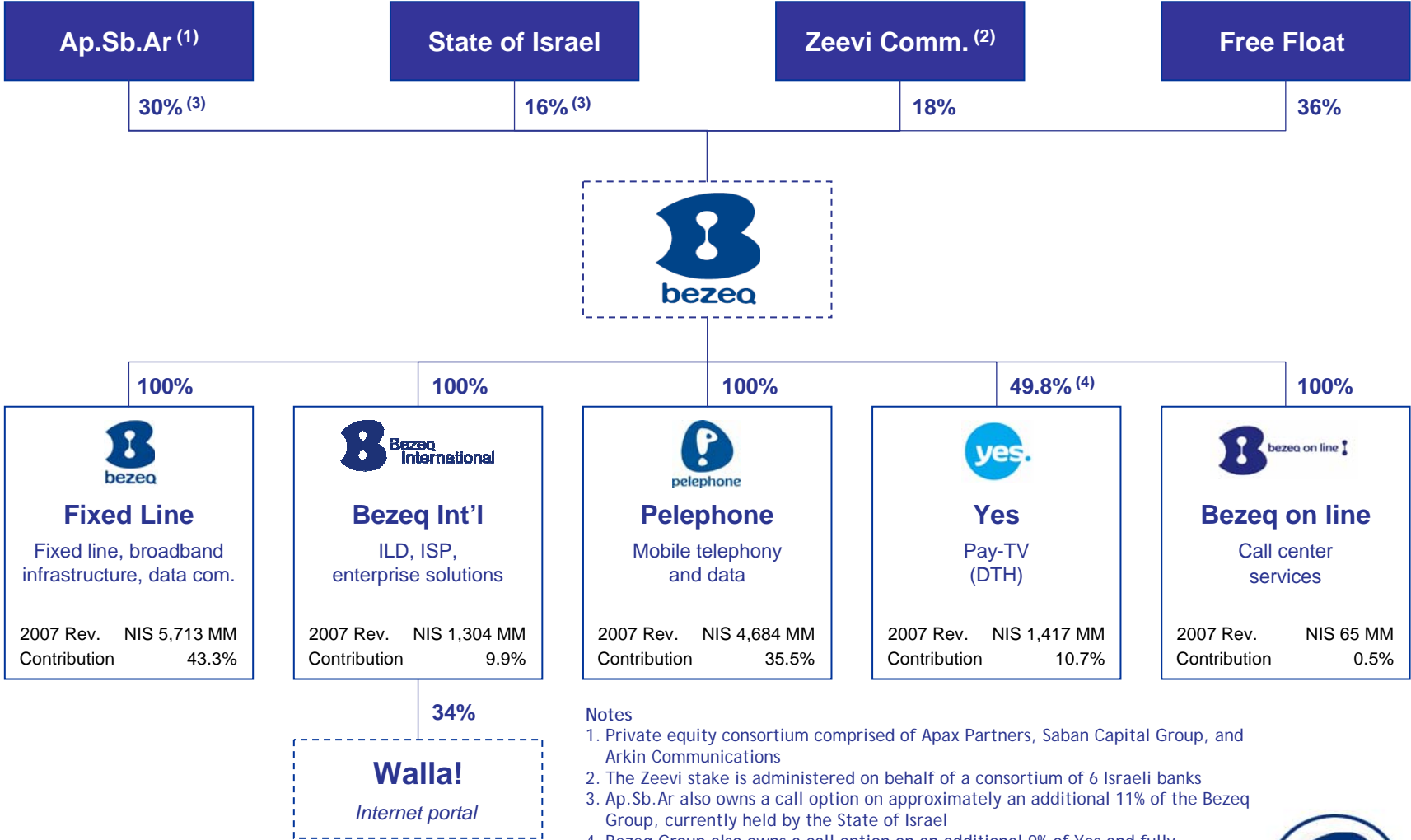
Source: Bezeq analysis based on 2007 data

Note
1. IDB comprises Cellcom and Netvision/Barak



Bezeq Group Profile

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



Traded on TASE

- Notes
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 6 Israeli banks
 3. Ap.Sb.Ar also owns a call option on approximately an additional 11% of the Bezeq Group, currently held by the State of Israel
 4. Bezeq Group also owns a call option on an additional 9% of Yes and fully consolidates Yes' financial results



Bezeq Group Q1 2008 Key Achievements

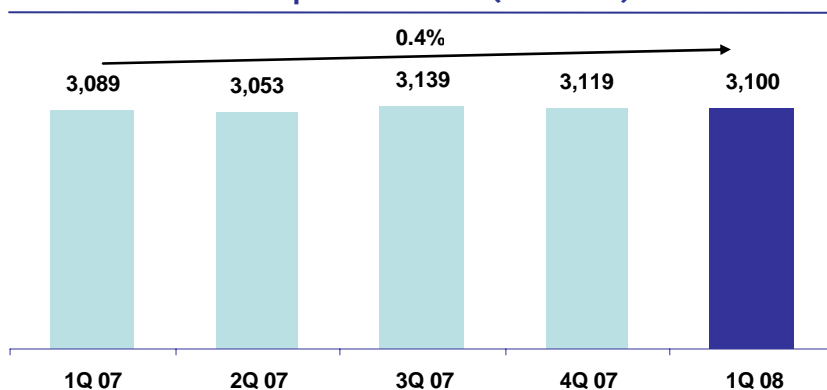
- ⚡ Stable performance of the fixed-line telephony business despite the introduction of number portability
 - ⚡ Robust growth in Internet services and continued focus on the enterprise market
- ⚡ Leading share of net portable adds since the introduction of number portability in the mobile telephony market and continued leadership in 3G subscribers and share of data revenue
- ⚡ Continued focus on cost reduction with the completion of the first phase of implementation of the Labor Agreement

Bezeq Group Financial Performance

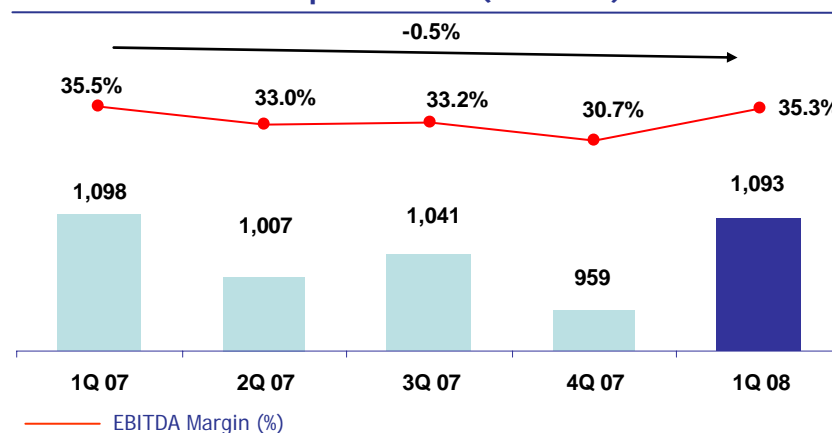
Stable YoY quarterly Group Revenue, EBITDA, and Net Income
 Group FCF impacted by higher YoY quarterly capex, increase in trade receivables and payments related to the early retirement program

Group
Fixed
Int'l
Mobile
Pay-TV

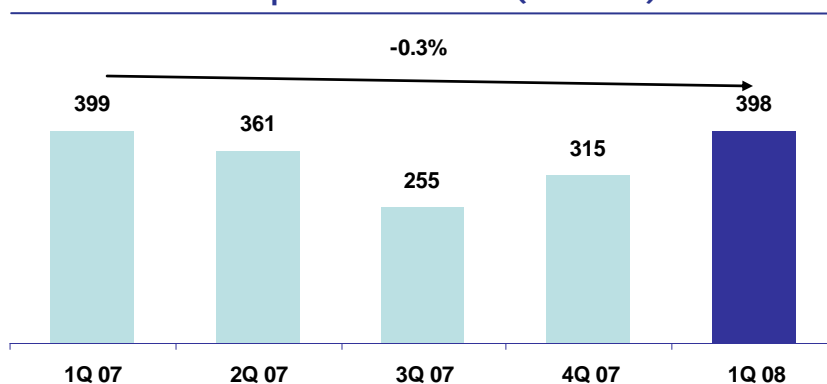
Group Revenue (NIS MM)



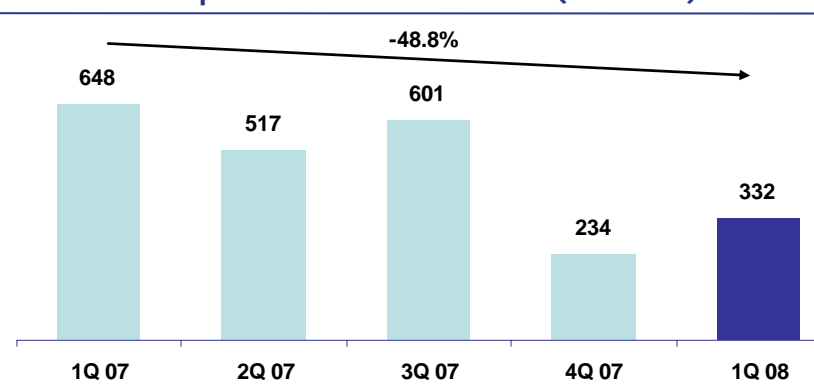
Group EBITDA (NIS MM)



Group Net Income (NIS MM)



Group Free Cash Flow ⁽¹⁾ (NIS MM)



Note

1. Free cash flow defined as Cash Flow from Operations - Net capex

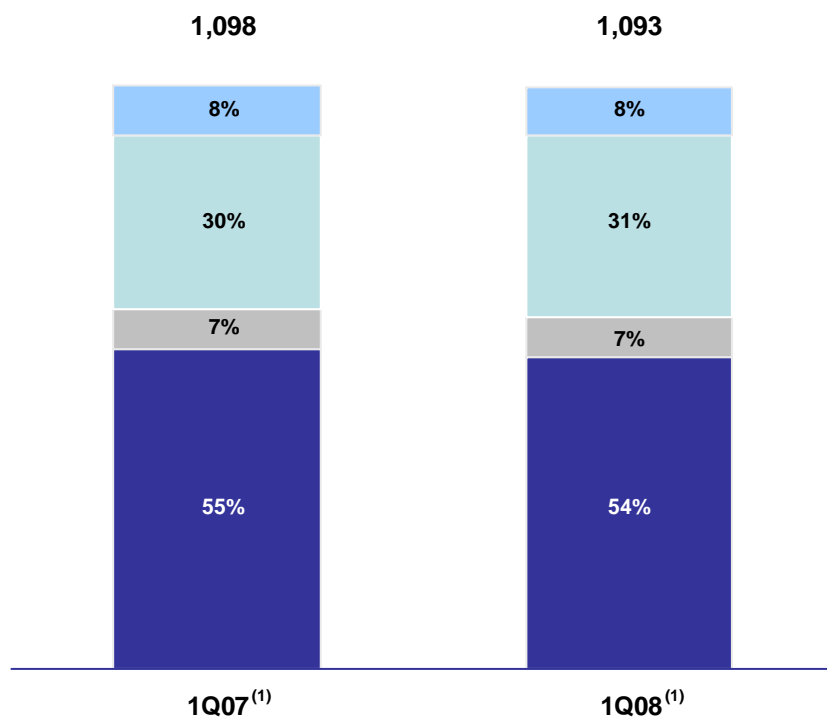


EBITDA Mix and EBITDA Margins

Overall stable YoY quarterly Group EBITDA margin, with improvements at Bezeq Int'l and Pelephone compensating for a deterioration at Yes

Group
Fixed
Int'l
Mobile
Pay-TV

Consolidated EBITDA (NIS MM)



■ Bezeq Fixed Line ■ Bezeq Int'l ■ Pelephone ■ Yes

EBITDA Margin per Division

	1Q 07	1Q 08	Change (p.p.)
Bezeq Fixed Line	42.0%	41.8%	-0.2 p.p.
Bezeq Int'l	22.9%	23.9%	+1.0 p.p.
Pelephone	28.8%	29.2%	+0.5 p.p.
Yes	26.0%	24.1%	-1.9 p.p.
Bezeq Group	35.5%	35.3%	-0.2 p.p.

Note

1. Percentage contribution before other revenues and inter-company eliminations



Fixed Line

Group
Fixed
Int'l
Mobile
Pay-TV

- ⌘ Stable YoY revenues from traditional fixed-line voice after adjusting for interconnect despite Q1 2008 being the first full quarter after the introduction of number portability
- ⌘ 19% revenue growth in Internet services, driven by continued bandwidth upgrades and successful commercial initiatives aimed at both existing and new subscribers
- ⌘ Continued effort on cost reductions and operational efficiency

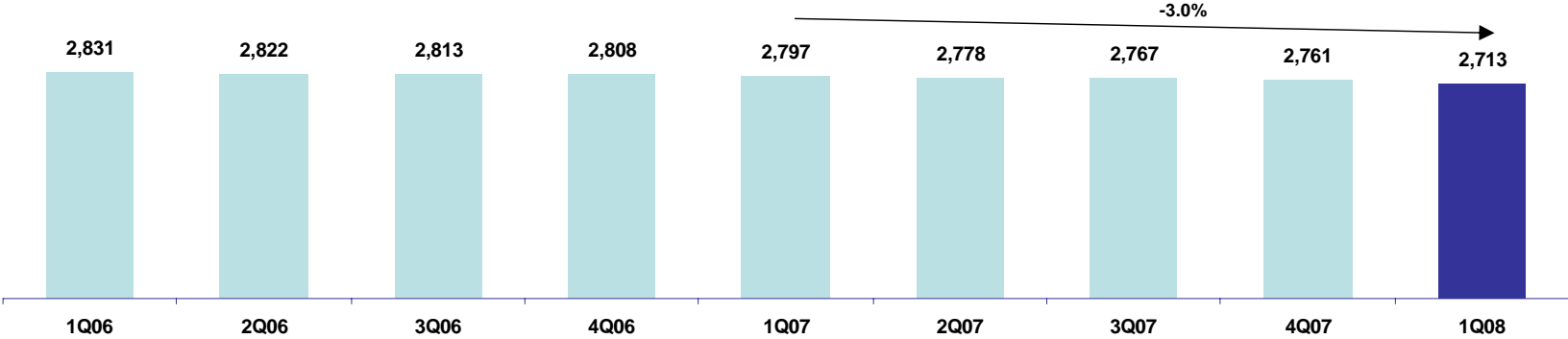


Domestic Telephony KPIs

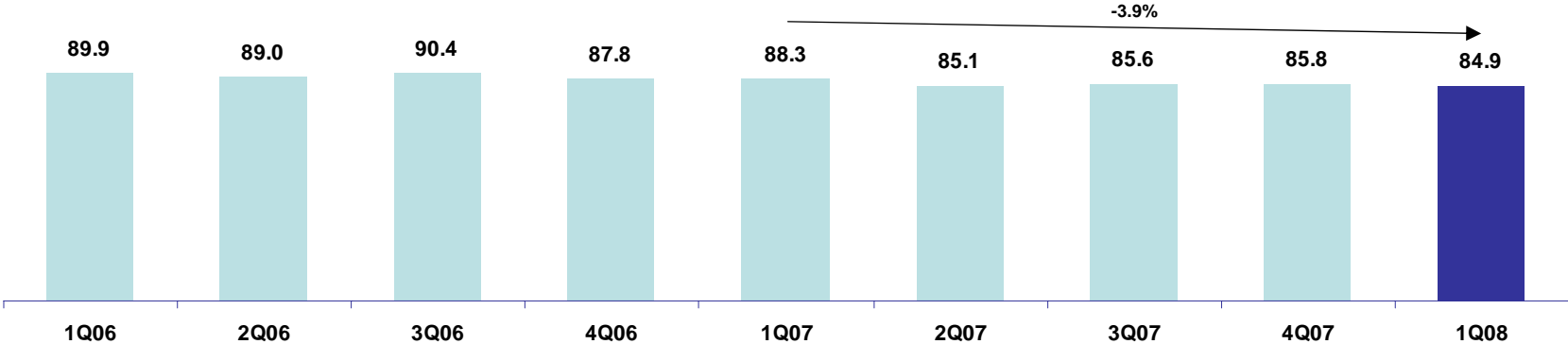
Introduction of number portability causing a 3.0% decline YoY in access lines
 3.9% YoY ARPU decline driven by lower traffic and reduced tariffs

Group
Fixed
Int'l
Mobile
Pay-TV

Access Lines ('000)



ARPU (NIS/Month)

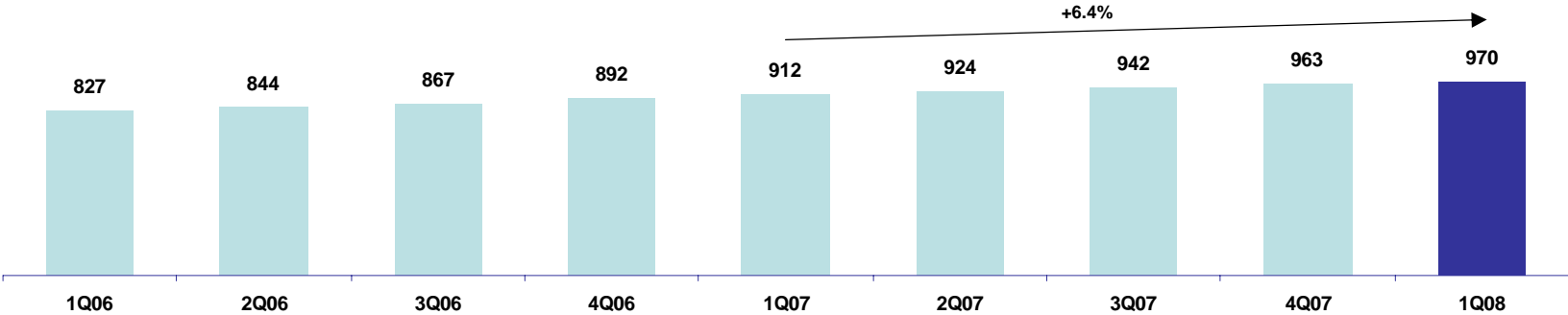


Broadband KPIs

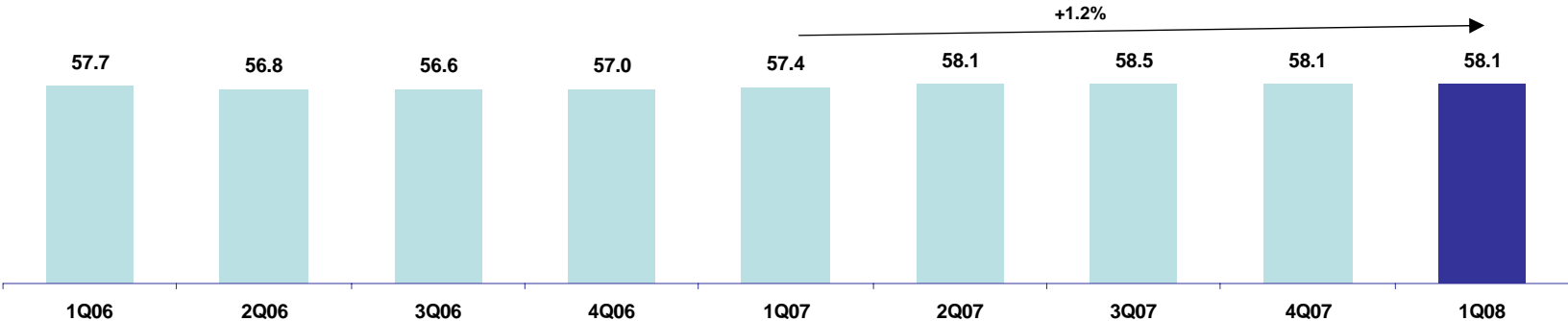
6.4% YoY growth in ADSL lines without the benefit of bundled offers
 1.2% ARPU increase YoY driven by bandwidth upgrade and VAS

Group
Fixed
Int'l
Mobile
Pay-TV

ADSL Lines ('000)



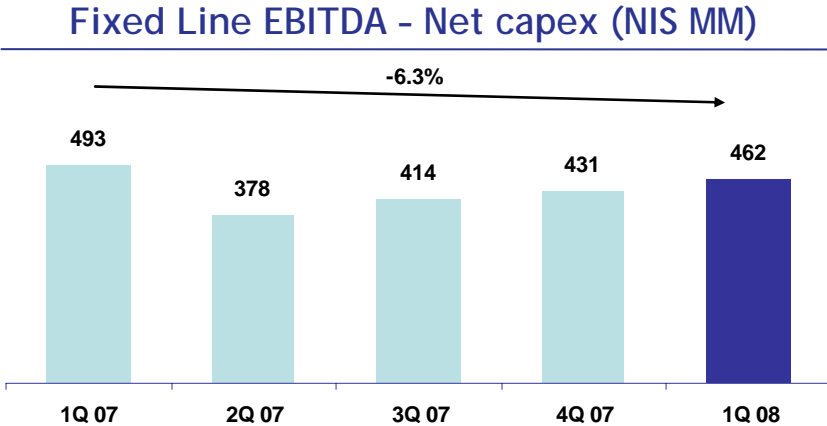
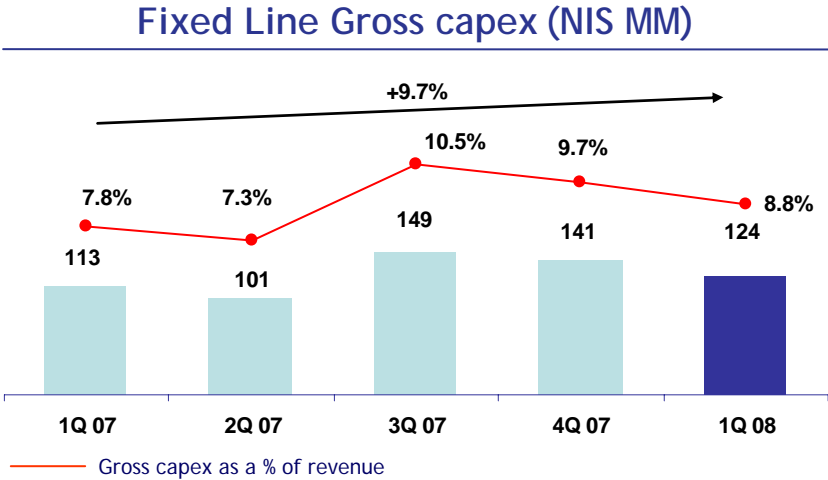
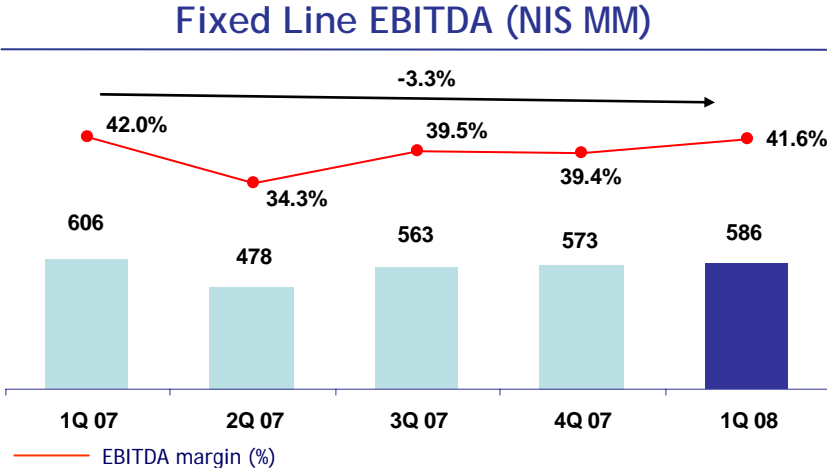
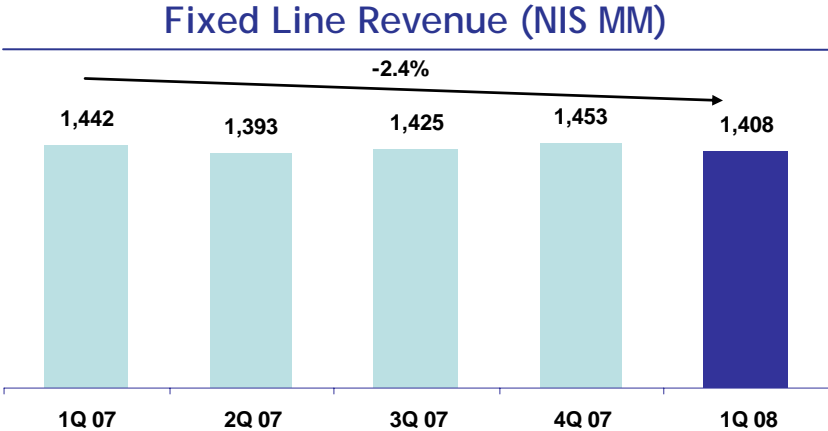
ARPU (NIS/Month)



Fixed Line Financial Performance

Decline in traditional voice mitigated by growth in broadband
 EBITDA and FCF decline YoY but strong sequential QoQ improvement

Group
Fixed
Int'l
Mobile
Pay-TV



Bezeq International

Group
Fixed
Int'l
Mobile
Pay-TV

- ⚡ Leading market share in Internet services and international calls
- ⚡ 14% revenue growth in our core business areas of ILD, ISP and enterprise solutions
- ⚡ Overall segment revenue decline explained by weakness in the US dollar and the decrease in hubbing traffic between foreign operators using Bezeq Int'l switches
- ⚡ Focus on cost control delivering significant improvements in profitability

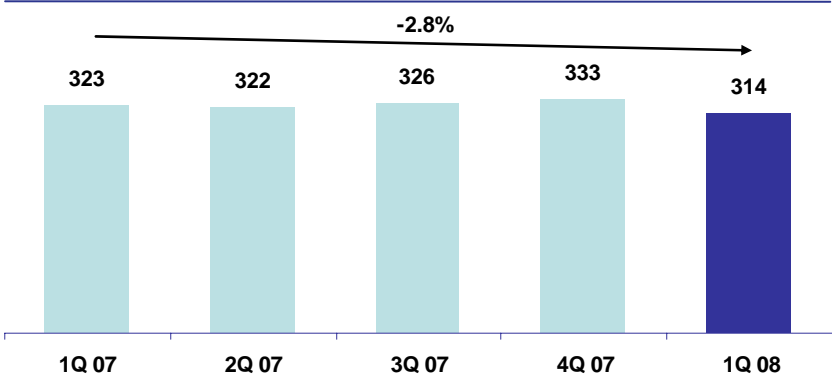


Bezeq Int'l Financial Performance

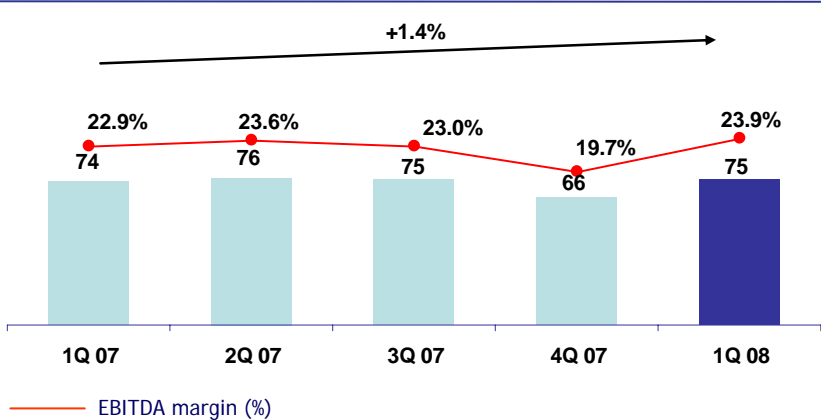
Decline in international incoming traffic partially offset by increase in outgoing traffic and ISP revenue
 Improving EBITDA margin

Group
Fixed
Int'l
Mobile
Pay-TV

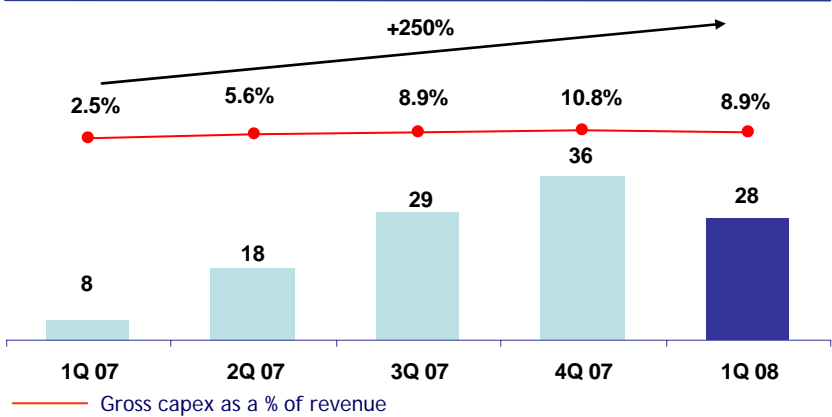
Bezeq Int'l Revenue (NIS MM)



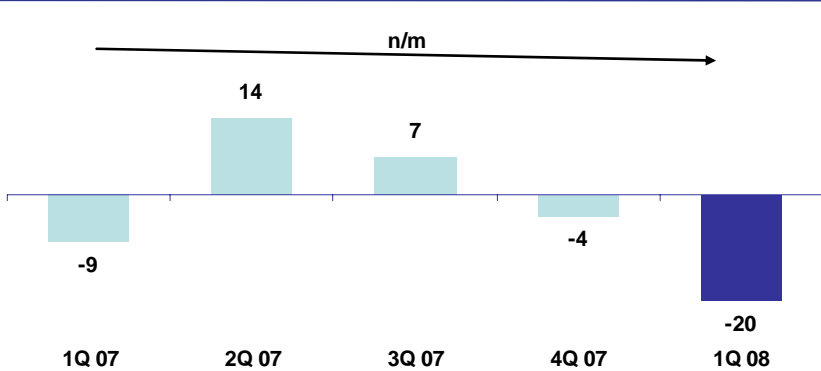
Bezeq Int'l EBITDA (NIS MM)



Bezeq Int'l Gross capex (NIS MM)



Bezeq Int'l Free Cash Flow ⁽¹⁾ (NIS MM)



Note
 1. Free cash flow defined as Cash Flow from Operations - Net capex



Pelephone

Group
Fixed
Int'l
Mobile
Pay-TV

- ⌚ Leader in net portable subscriber additions since the implementation of number portability
- ⌚ Reinforced leadership position in 3G services, with 3G subscribers representing 35% of Pelephone's subscriber base in Q1 2008
- ⌚ 15% of mobile service revenues coming from data and VAS, making Pelephone a leader in the field
- ⌚ Continued roll-out of the HSPA network

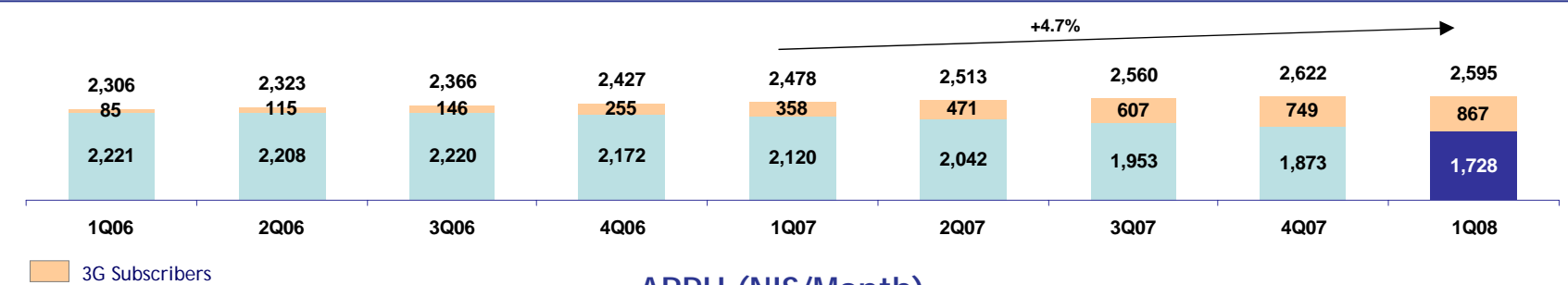


Telephone KPIs

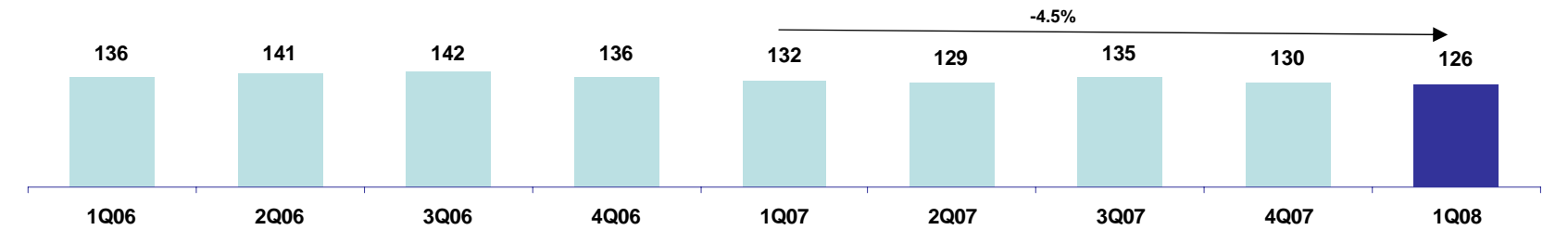
4.7% increase in subscribers driven by 3G additions
 4.5% decline in ARPU driven by decrease in tariffs

Group
Fixed
Int'l
Mobile
Pay-TV

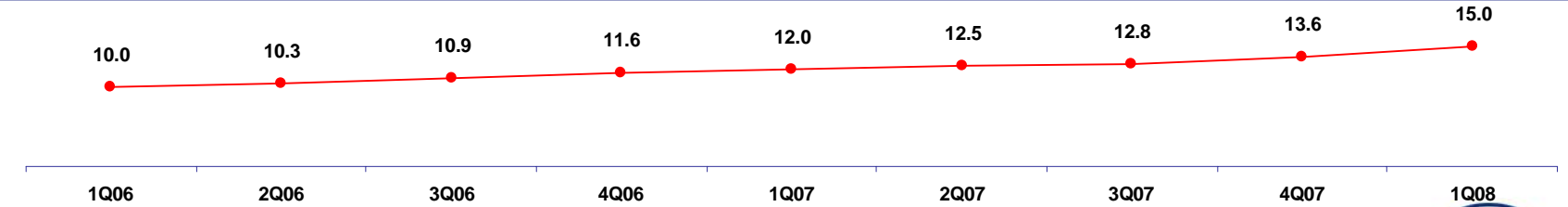
Subscribers ('000)



ARPU (NIS/Month)



Data & VAS Revenue as a Percentage of Cellular Service Revenue ⁽¹⁾ (%)



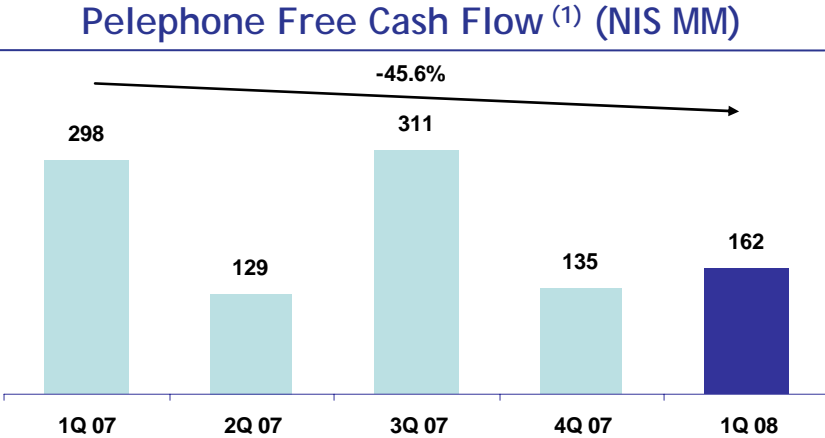
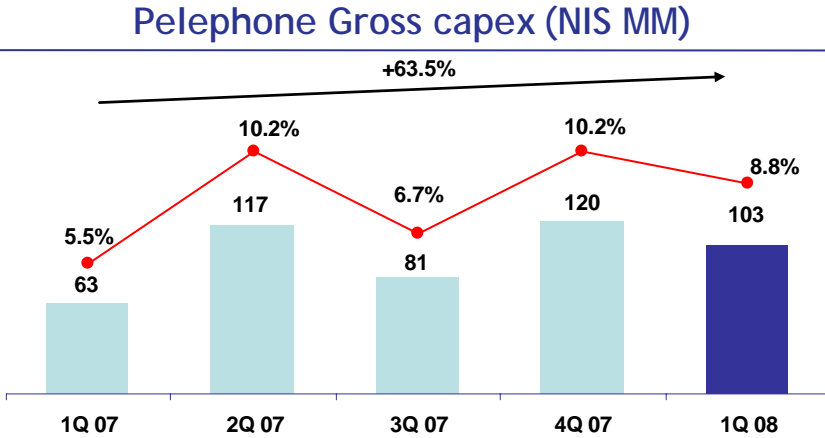
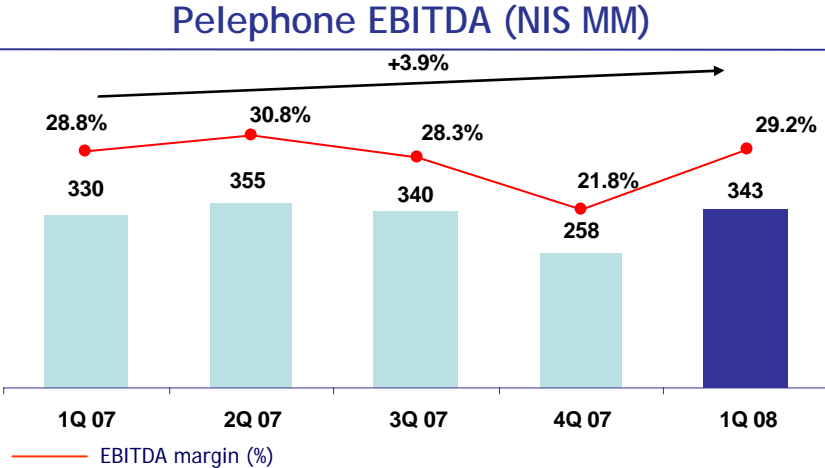
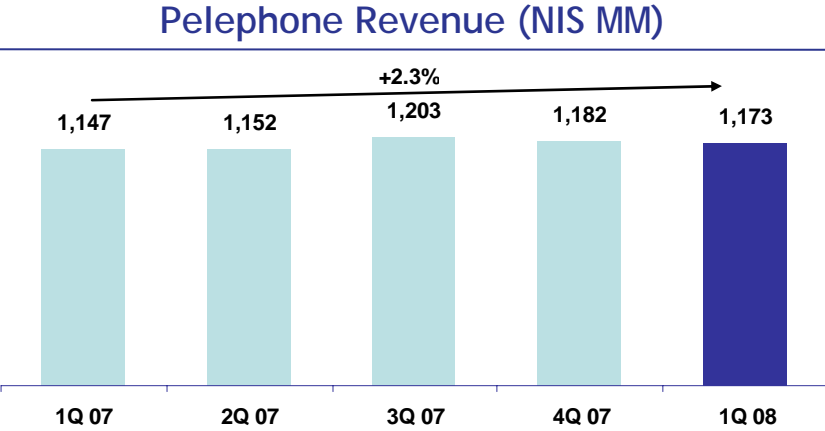
Note
 1. Includes telephony and data services but excludes sale of equipments



Telephone Financial Performance

Revenue and EBITDA growth YoY driven by data, content and VAS
 FCF impacted by higher YoY quarterly capex and number portability

Group
Fixed
Int'l
Mobile
Pay-TV



Note
 1. Free cash flow defined as Cash Flow from Operations - Net capex

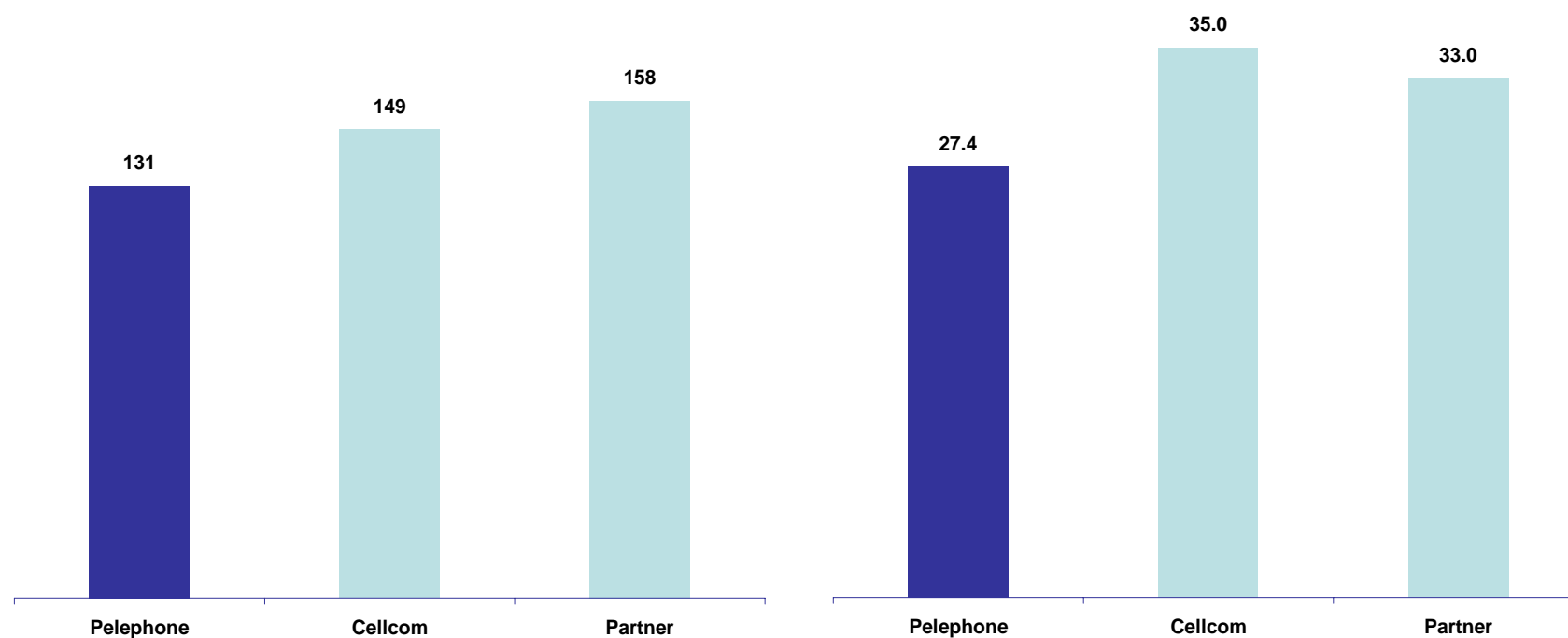


Pelephone Operational and Financial Upside

Group
Fixed
Int'l
Mobile
Pay-TV

ARPU Comparison, 2007 (NIS/Month)

EBITDA Margin Comparison, 2007 (%)



Source: Company filings



Yes

Group
Fixed
Int'l
Mobile
Pay-TV

- ⌚ Normalization of Yes' operations following the signal interruptions experienced in September and October last year
- ⌚ Continued focus on providing premium film and TV series content
- ⌚ End of complimentary premium subscriptions granted in connection with the service disruptions of the Fall 2007 and success of the yesMax PVR offering driving ARPU increase
- ⌚ Return to cash flow generation



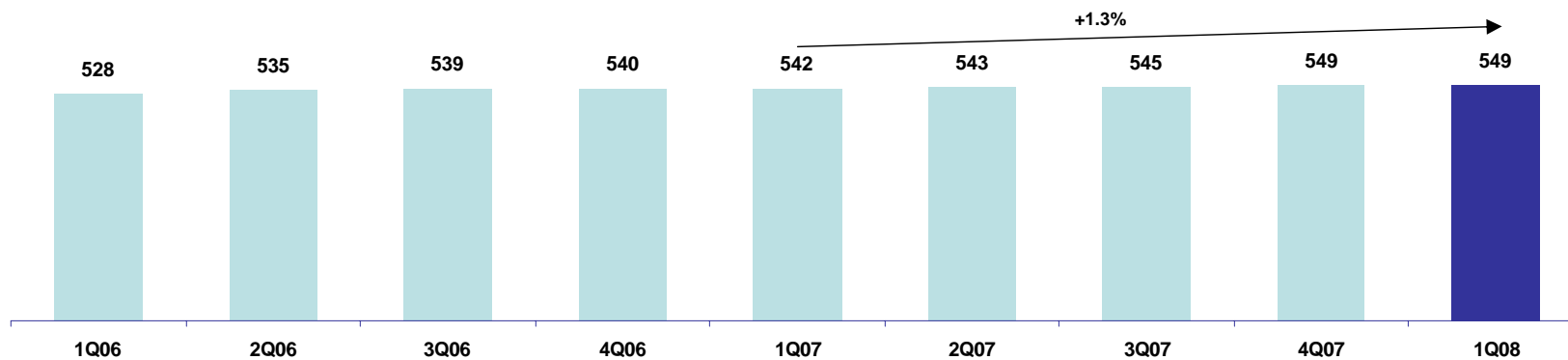
Yes KPIs

Stable subscriber base

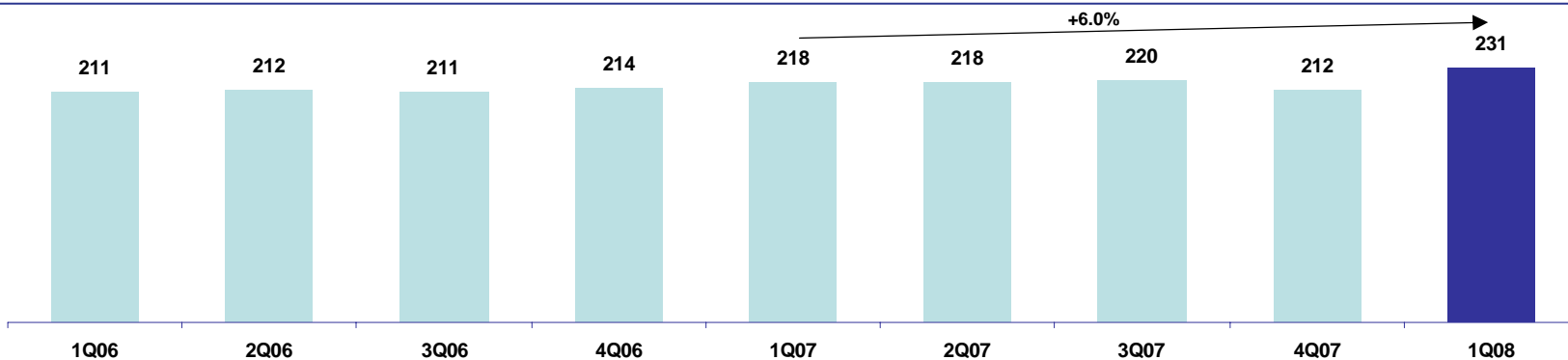
Strong ARPU growth YoY driven by VAS

Group
Fixed
Int'l
Mobile
Pay-TV

Subscribers ('000)



ARPU (NIS/Month)



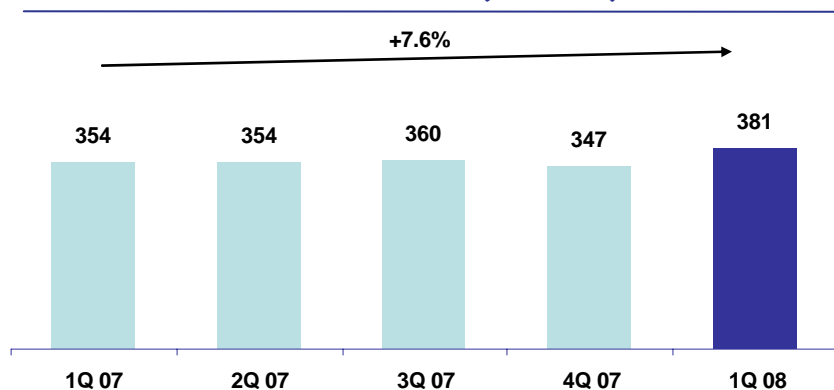
Yes Financial Performance

Strong revenue growth YoY and EBITDA margin recovering from the impact of the service disruptions in Q3 2007

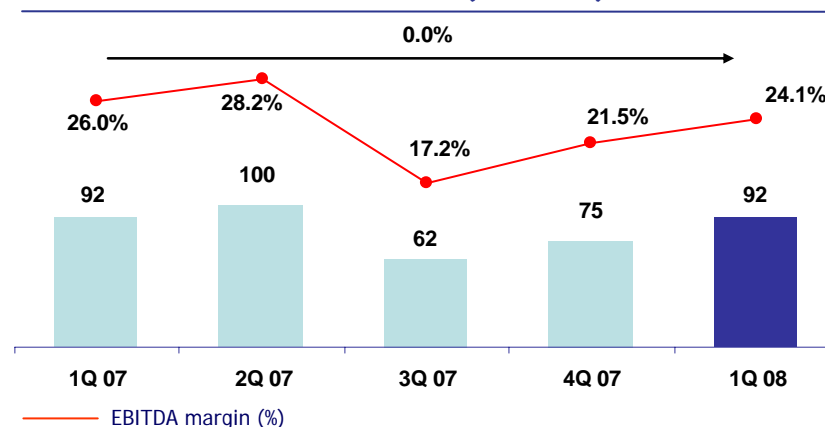
FCF impacted by increased investments in PVRs (yesMax)

Group
Fixed
Int'l
Mobile
Pay-TV

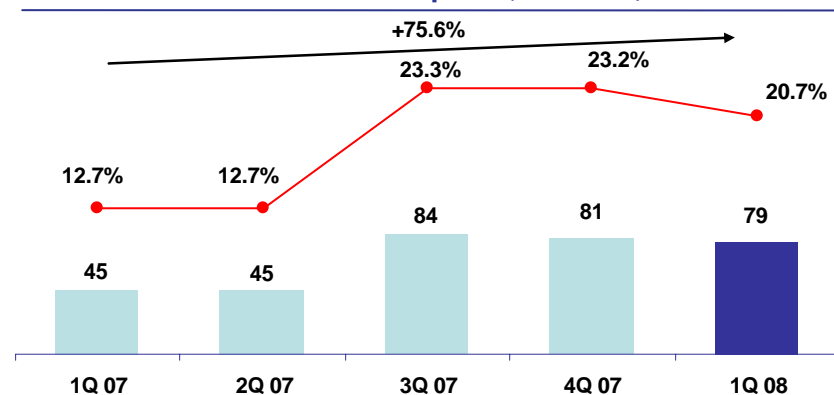
Yes Revenue (NIS MM)



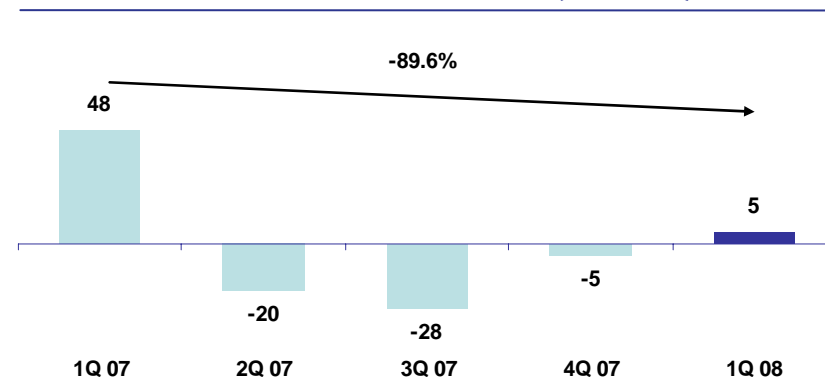
Yes EBITDA (NIS MM)



Yes Gross capex (NIS MM)



Yes Free Cash Flow ⁽¹⁾ (NIS MM)



— Gross capex as a % of revenue

Note

1. Free cash flow defined as Cash Flow from Operations - Net capex



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
- ⚡ Reinvent Pelephone as the leader in advanced mobile communications in Israel
- ⚡ 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
- ⚡ Whenever permitted by the regulator, mobilize the group's capabilities to integrate telephony, broadband, and Pay-TV products and operations

Consolidated P&L

(NIS MM, IFRS)	1Q 07	1Q 08	% Change
Revenues	3,089	3,100	0.4%
Cost and Expenses			
Depreciation and Amortization	441	429	(2.7%)
Salary	575	616	7.1%
Operating and General Expenses	1,423	1,370	(3.7%)
Other Operating Expenses/(Income), Net	(7)	21	N/M
Operating Profit	657	664	1.1%
<i>% Margin</i>	21.3%	21.4%	0.7%
EBITDA	1,098	1,093	(0.5%)
<i>% Margin</i>	35.5%	35.3%	(0.8%)
Net Income	385	385	0.0%
<i>% margin</i>	12.5%	12.4%	(0.4%)
Minority Interest	(14.0)	(13.0)	N/M
Net Income Attributable to Shareholders	399	398	(0.3%)

Consolidated Cash Flow Statement

(NIS MM, IFRS)	1Q 07	1Q 08	% Change
Net Income	385	385	0.0%
Adjustments:			
Depreciation and Amortization	441	429	(2.7%)
Change in Working Capital	(5)	(68)	N/M
Other Adjustments	32	(109)	N/M
Cash Flow from Operations	853	637	(25.3%)
Purchase of Property, Plant and Equipment	(177)	(307)	73.4%
Investment in Intangible Assets and in Deferred Expenses	(63)	(59)	N/M
Proceeds from Sale of Property	23	61	165.2%
Other Investments, Net	124	62	(50.0%)
Cash Flow from Investment Activities	(93)	(243)	161.3%
Repayment of Debentures/Loans	(151)	(269)	N/M
Receipt of Debentures/Loans	0	0	N/M
Dividends Paid	(2,100)	-	N/M
Interest Paid	(75)	(56)	N/M
Other	(44)	16	N/M
Cash Flow from Financing Activities	(2,370)	(309)	(87.0%)
Net Increase in Cash & Cash Equivalents	(1,598)	85	(105.3%)
Cash and Cash Equivalents, BoP	2,632	1,203	(54.3%)
Exchange Rate Fluctuations	(1)	(5)	N/M
Cash and Cash Equivalents, EoP	1,033	1,283	(2.7%)



Consolidated Balance Sheet

(NIS MM, IFRS)	1Q 07	1Q 08	% Change
Assets			
Cash and cash equivalents	1,033	1,283	24.2%
Other current assets	3,671	3,599	(2.0%)
Total current assets	4,704	4,882	3.8%
Property, plant and equipment	6,335	5,981	(5.6%)
Intangible assets	2,563	2,495	(2.7%)
Other non-current assets	2,084	1,827	(12.3%)
Total non-current assets	10,982	10,303	(6.2%)
Total Assets	15,686	15,185	(3.2%)
Liabilities			
Loans and credit	3,707	1,032	(72.2%)
Other current liabilities	3,590	3,277	(8.7%)
Total current liabilities	7,297	4,309	(40.9%)
Debentures	2,940	4,242	44.3%
Obligations to banks	435	1,125	158.6%
Other non-current liabilities	1,238	943	(23.8%)
Total non-current liabilities	4,613	6,310	36.8%
Total liabilities	11,910	10,619	(10.8%)
Total shareholders' equity	4,354	4,952	13.7%
Net debt ⁽¹⁾	5,043	4,712	(6.6%)

Note

1. [Net debt excludes loans provided by the minority in a subsidiary and includes investment and loans, including derivatives]





bezeq

Q&A

