



BEZEQ Group

**Investor
Presentation
Full Year 2010**

March 2011

Forward-Looking Information and Statement



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Bezeq Group Overview

Summary Highlights



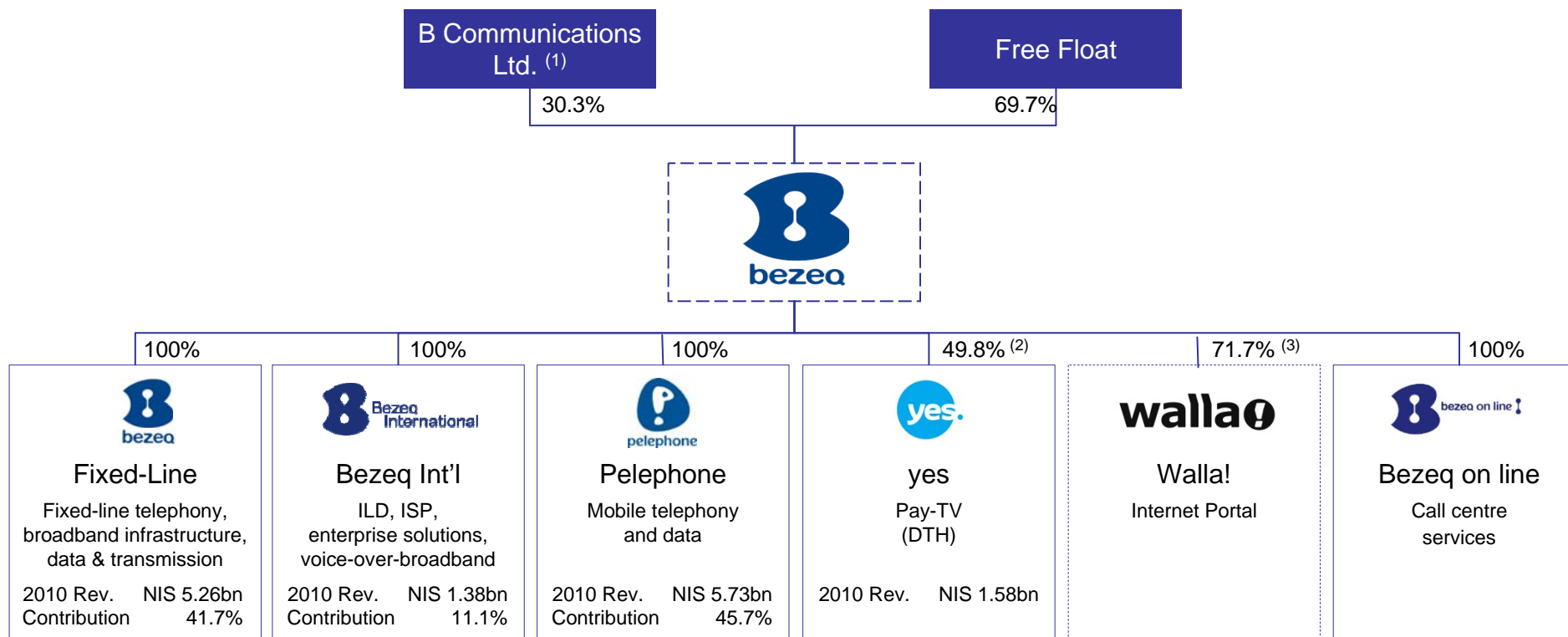
The most comprehensive communications infrastructure and service provider in Israel





Bezeq Group Profile

~70% free float and improved liquidity facilitate transition to developed markets



 Listed on TASE

Notes:

1. B Communications Ltd. is controlled by Internet Gold – Golden Lines Ltd. (75.3%), which is controlled by Eurocom Communications Ltd. (70%).
2. Following a Supreme Court decision which prevents Bezeq from getting control of yes, as of August 21, 2009, Bezeq ceased consolidating yes' financial results and started accounting for its investment in yes according to the equity method.
3. In September 2010, Bezeq International sold its entire holding in Walla! to Bezeq.

Bezeq Group 2010 Highlights



- ⌚ Group profits driven by combination of revenue growth and enhanced operating efficiency
 - ⌚ Net profit from continuing operations of NIS 2.44 bn, up 13.3% YoY
 - ⌚ EBITDA reaches NIS 5.15 bn, up 15.6% YoY; EBITDA margin at 43.0% vs. 38.7% for 2009
 - ⌚ FY and Q4 2009 operating profit, net profit, and EBITDA were impacted by a NIS 267 million provision for employee retirement recorded in Q4 2009 versus a NIS 36 million provision recorded in 2010 of which only NIS 5 million was recorded in Q4 2010.
- ⌚ Revenues grew 4.1% YoY despite intense competition in all market segments
- ⌚ Strategic capex investments continues to yield results
 - ⌚ Pelephone's new HSPA network drives market share, revenue and profits expansion in mobile
 - ⌚ Bezeq Fixed-Line progresses with NGN deployment, reaching over 50% of Israeli households in 2010, increasing ARPU and profitability
- ⌚ Attractive shareholder remuneration
 - ⌚ Dividends of NIS 3.73 bn paid during 2010 reflect a 14.5% yield
 - ⌚ Board of Directors recommends NIS 1.16 bn cash dividend, or approx. NIS 0.43 per share
 - ⌚ NIS 3 bn capital reduction for the years 2011-2013 pending court approval

2010 Highlights by Operating Segments



- ⌚ **Bezeq Fixed-Line's NGN deployment drives revenue resilience and profitability gains**
 - ⌚ EBITDA margin reaches 51.9% for 2010 vs. 43.7% in 2009
 - ⌚ Revenue decline of only 0.8% YoY reflects continued growth in broadband, data and transmission services
 - ⌚ Excluding interconnect fees, 2010 revenue was unchanged versus 2009
 - ⌚ FY and Q4 2009 operating profit, net profit, and EBITDA were impacted by a NIS 267 million provision for employee retirement recorded in Q4 2009 versus a NIS 36 million provision recorded in 2010 of which only NIS 5 million was recorded in Q4 2010.
- ⌚ **Pelephone achieves record EBITDA driven by successful rollout of HSPA network**
 - ⌚ Solid execution of customer migration into the new network yields revenue growth and ARPU enhancement
 - ⌚ Continued HSPA leadership and uptake in roaming, data, content and value-added services
- ⌚ **Bezeq International delivers profit growth as it reaffirms leading position in ISP**
 - ⌚ Revenue growth driven by strength of ICT business enterprise solutions and internet services
- ⌚ **yes gains market share in competitive environment and improves operating efficiency**
 - ⌚ Value added services such as yes Max (PVR service), yes MaxHD, and yes MaxTOTAL (VOD) providing additional growth drivers

Operating Segments' Performance in 2010



Change in 2010 vs. 2009	Bezeq		Bezeq		Bezeq Group ⁵
	Fixed-Line ¹	Telephone	Int'l ¹	yes	
Revenues	-0.8%	+6.6%	+4.8%	+3.4%	+4.1%
Operating profit	+34.1%	+16.2%	+22.6%	-28.2%	+26.0%
EBITDA	+18.0%	+10.6%	+20.0%	-4.0%	+15.6%
EBITDA margin ²	+8.2 p.p.	+1.2 p.p.	+3.8 p.p.	-2.2 p.p.	+4.3 p.p.
Net profit (loss) from continuing operations	+28.8%	+18.1%	+26.6%	+41.0% ³	+13.3%
Free cash flow ⁴	-14.7%	+46.8%	-43.9%	+41.8%	-0.2%

1. Excludes Walla! financials.

2. Year-over-year change presented in percentage points.

3. yes recorded a 41.0% increase in its net loss in 2010.

4. Free cash flow defined as cash flow from operations - net capex

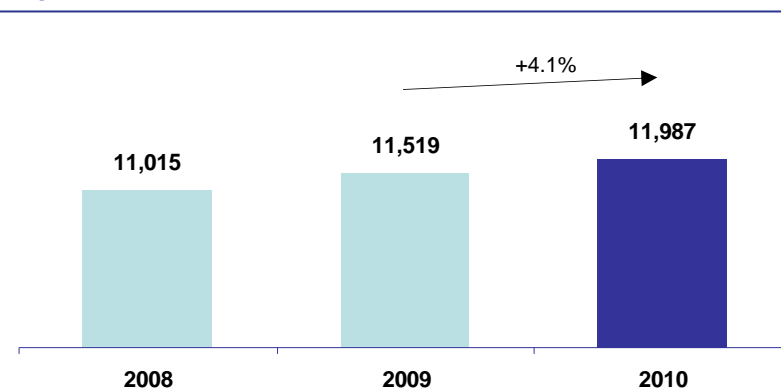
5. Excluding yes financials

Bezeq Group Financial Performance

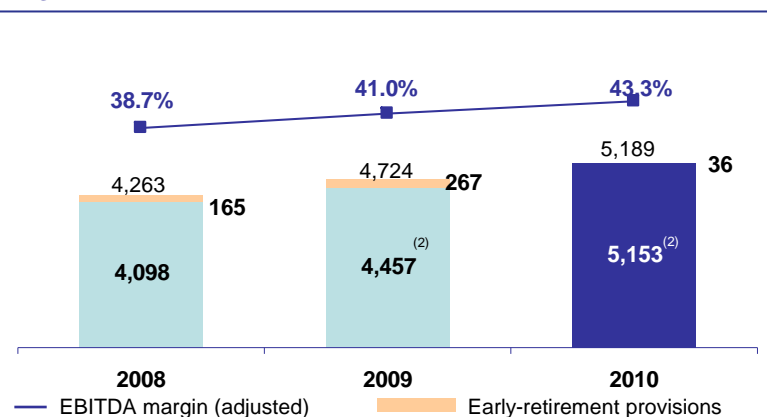


Higher revenues combined with strong profits and cash flows

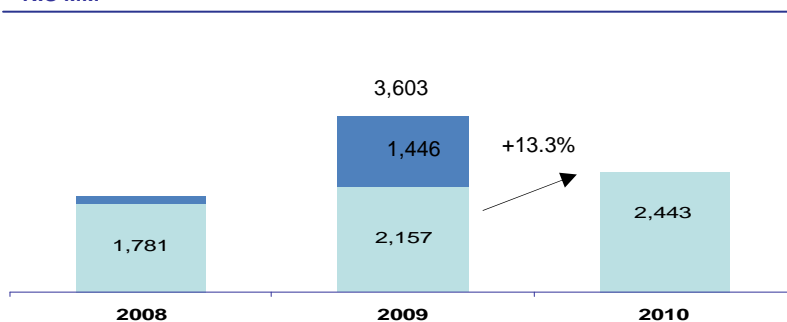
Consolidated Revenue
NIS MM



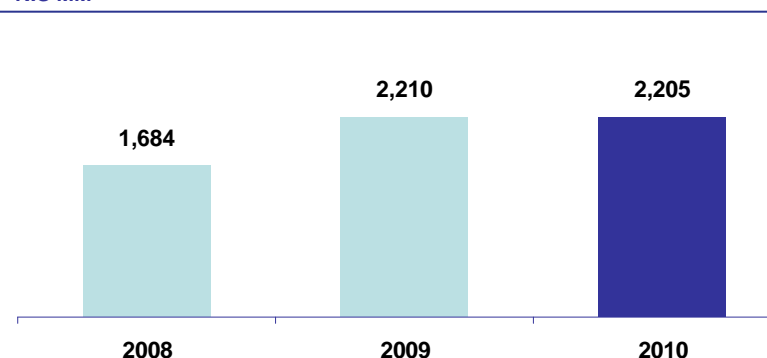
Consolidated EBITDA (1) (2)
NIS MM



Consolidated Net Profit to Shareholders (2) (3)
NIS MM



Consolidated Free Cash Flow (4)
NIS MM



1. Adjusted for early retirement-related provisions
2. Includes costs related to employee options (NIS 36MM in 2010, NIS 45MM in 2009 and NIS 73MM in 2008)
3. 2009 net profit to shareholders includes a one-time gain of NIS 1,538MM resulting from the deconsolidation of yes
4. Free cash flow defined as Cash Flow from Operations - Net Capex.

Bezeq Group Financial Outlook 2011



- ⌚ The Bezeq Group projects that despite the expected decrease in Group revenues resulting from the reduction of cellular interconnect rates, full year 2011 net profit and EBITDA are expected to be similar to 2010 levels, before the impact of:
 - ⌚ NIS 281.5 million provision for employee retirement, expected to be recorded in the first quarter of 2011, and
 - ⌚ NIS 120 million expense resulting from the new employee stock option plan, expected to be recorded over the course of 2011

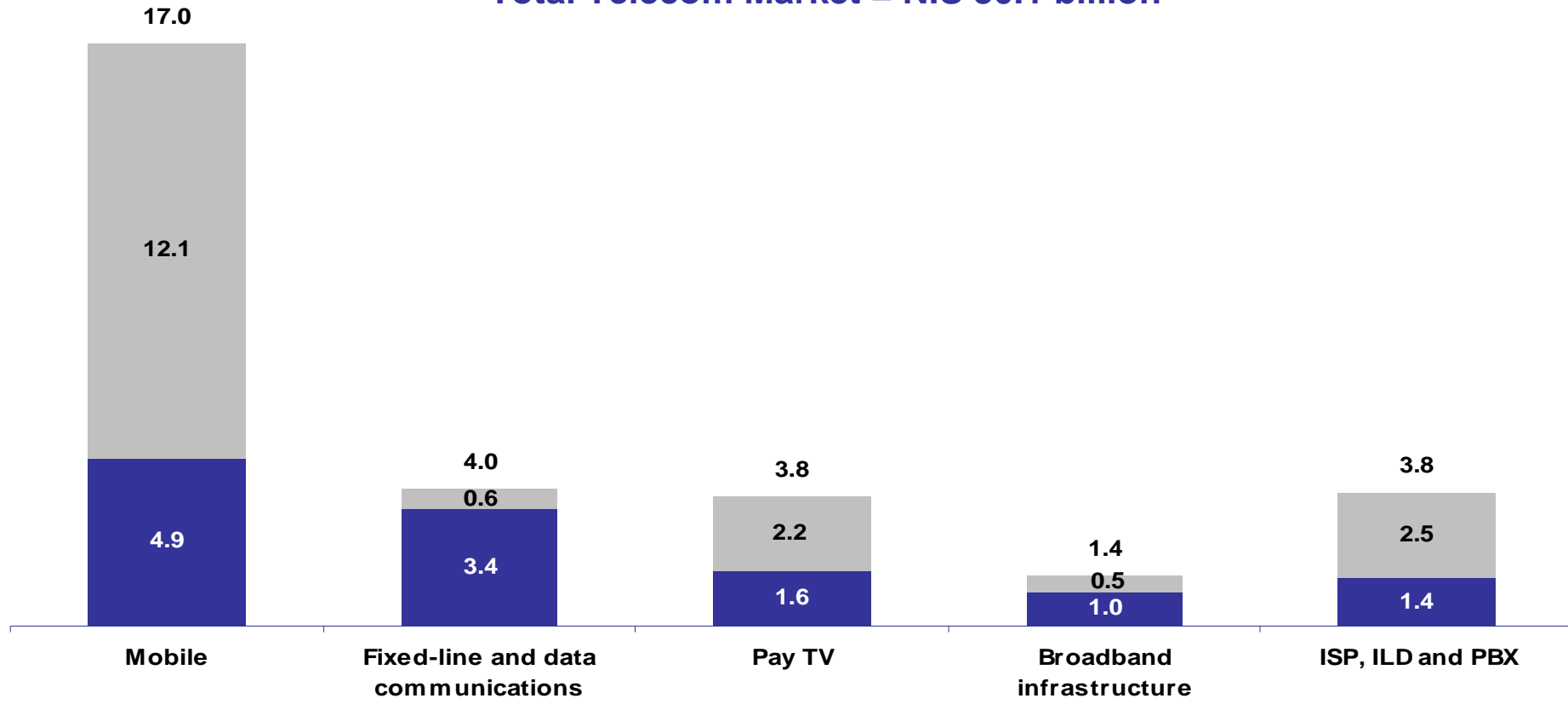
- ⌚ The Bezeq Group expects to continue investing in its NGN and to expand its coverage to reach close to 85% of Israeli households by the end of 2011

- ⌚ Gross capital expenditures in 2011 are projected to be 5 to 10% higher than in 2010, primarily due to Bezeq International's deployment of a submarine cable that, upon its completion, is expected to significantly enhance the Group's internet bandwidth capacity and connectivity to the world wide web.
 - ⌚ We are considering the possibility of investing in the purchase of real estate to serve as the Group's headquarters, replacing leased properties. If the Group decides on this alternative, its gross capital expenditures in 2011 would increase by an additional 5 to 10%.

Israeli Telecom Market in 2010 ¹



Total Telecom Market = NIS 30.1 billion



Bezeq Mkt Share

	Mobile	Fixed-line and data communications	Pay TV	Broadband infrastructure	ISP, ILD and PBX
2010	29%	85%	42%	68%	36%
2009	28%	87%	41%	68%	35%

¹ Based on Bezeq analysis, excluding revenues from interconnect fees transferred to telecom operators

Regulatory Environment



Fixed-Line

- MoC-appointed Hayek committee submitted interim report recommending fixed-line wholesale regime, roadmap for cancellation of structural separation and cancellation of Bezeq's tariff supervision. The final report is expected in Q2 2011

ISP, International long distance

- MoC promotes the entrance of new competitors into ISP and ILD segments
- Merger between Partner and 012 Smile received regulatory approval

Mobile

- Regulators promote increased competition through:
 - MTRs cut from NIS 0.25 to NIS 0.0687 as of Jan 2011; glide path to NIS 0.0555 in 2014
 - 7 MVNO licenses already granted, commercial launch expected in mid-2011
 - Introduction of 1-2 additional MNOs
 - Consumer focused amendments passed; likely to limit operators' ability to reduce churn

Pay-TV

- Expected introduction of 'narrow package' by pay-TV operators
- Possible expansion of DTT service scope (from 5 to 15 channels)

Bezeq Group Strategic Roadmap



- ‡ Evolve from an infrastructure-oriented incumbent to a customer-centric services provider
 - ‡ Introducing innovative products and services tailored to the needs of increasingly converged communications and media markets

- ‡ Position Pelephone as a leader in advanced mobile communications in Israel
 - ‡ HSPA network success validates potential for market share and profitability gain

- ‡ Enhance profitability by improving efficiencies and reducing costs across the Group
 - ‡ Leverage advanced NGN, HSPA and submarine cable infrastructure to reduce maintenance capex and opex

- ‡ Combine advanced communications platforms with comprehensive presence in the telecom markets to continue delivering superior returns to shareholders

Shareholder Remuneration

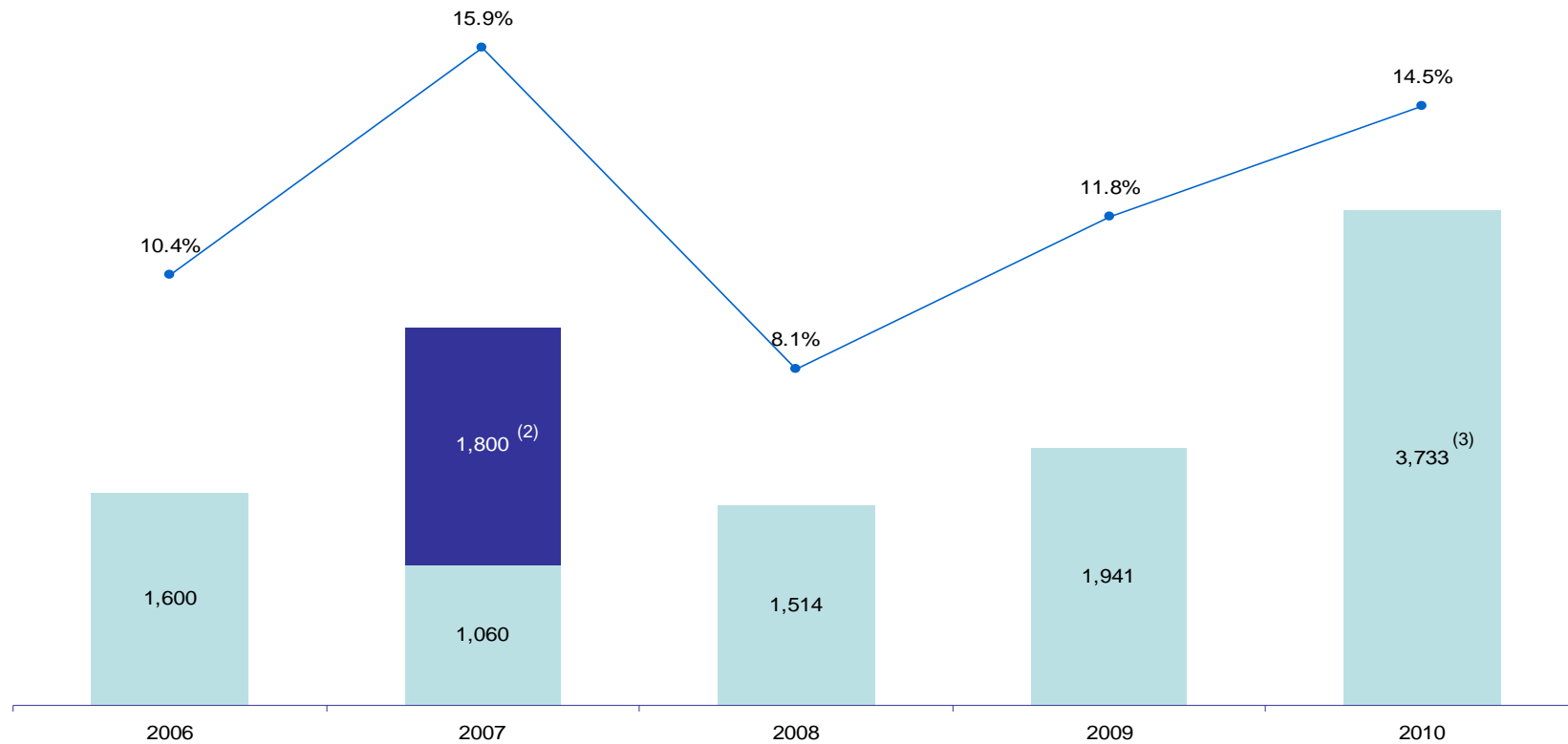


Capital distribution of NIS 3 BN in six semi-annual payments during 2011-2013 pending court approval

Dividend Distributions

NIS MM

— Dividend Yield, % ⁽¹⁾



Source Bezeq

1. Calculated as regular and special dividends paid during the fiscal year, divided by the market capitalization as of December 31 of the previous year

2. Special dividend paid in February 2007

3. NIS 2.45bn paid in May 2010 representing H2-09 earnings (inc. one-time gain from yes' deconsolidation of NIS 1.5bn), and NIS 1.28bn paid Oct 7, 2010 representing H1-10 earnings.

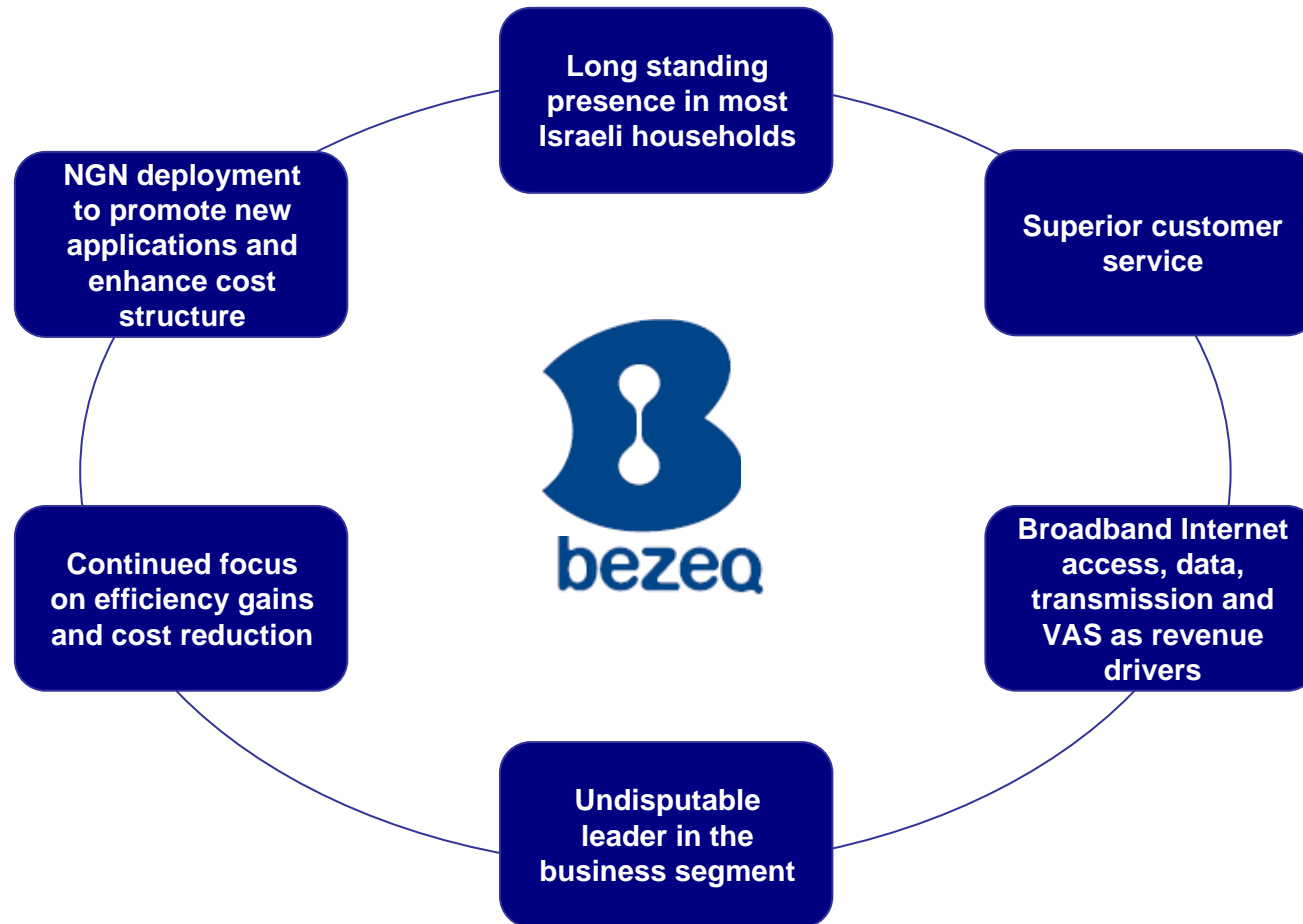


Bezeq
Fixed-Line



Bezeq Fixed-Line Overview

The leading fixed-line services operator in Israel



Bezeq Fixed-Line 2010 Highlights



Successful continued implementation of cost efficiencies leads to significant profitability gains

- Full year EBITDA reaches NIS 2.73 bn, up 18.0% YoY, for an EBITDA margin of 51.9%
 - EBITDA included the positive impact of higher YoY gains from ongoing real estate and copper disposals
- Focus on cost rationalization resulted in 5.6% YoY decline in total operating costs
- FY and Q4 2009 operating profit, net profit, and EBITDA were impacted by a NIS 267 million provision for employee retirement recorded in Q4 2009 versus a NIS 36 million provision recorded in 2010 of which only NIS 5 million was recorded in Q4 2010.
- Anticipated revenue decline limited to only 0.8%, or stable YoY when excluding mobile interconnect fees

NGN generates operational benefits with rollout of higher value subscriber access packages

- Full year Broadband Internet ARPU increased 8.7% YoY to NIS 75, led by bandwidth upgrades and VAS
- Bezeq achieves over 50% coverage of Israeli households by year-end 2010 and on track for 85% by 2011
 - 34% penetration of NGN tariff plans among Bezeq's broadband Internet customers with NGN access
 - Average broadband Internet bandwidth increased 59% YoY to 4.3 Mbps

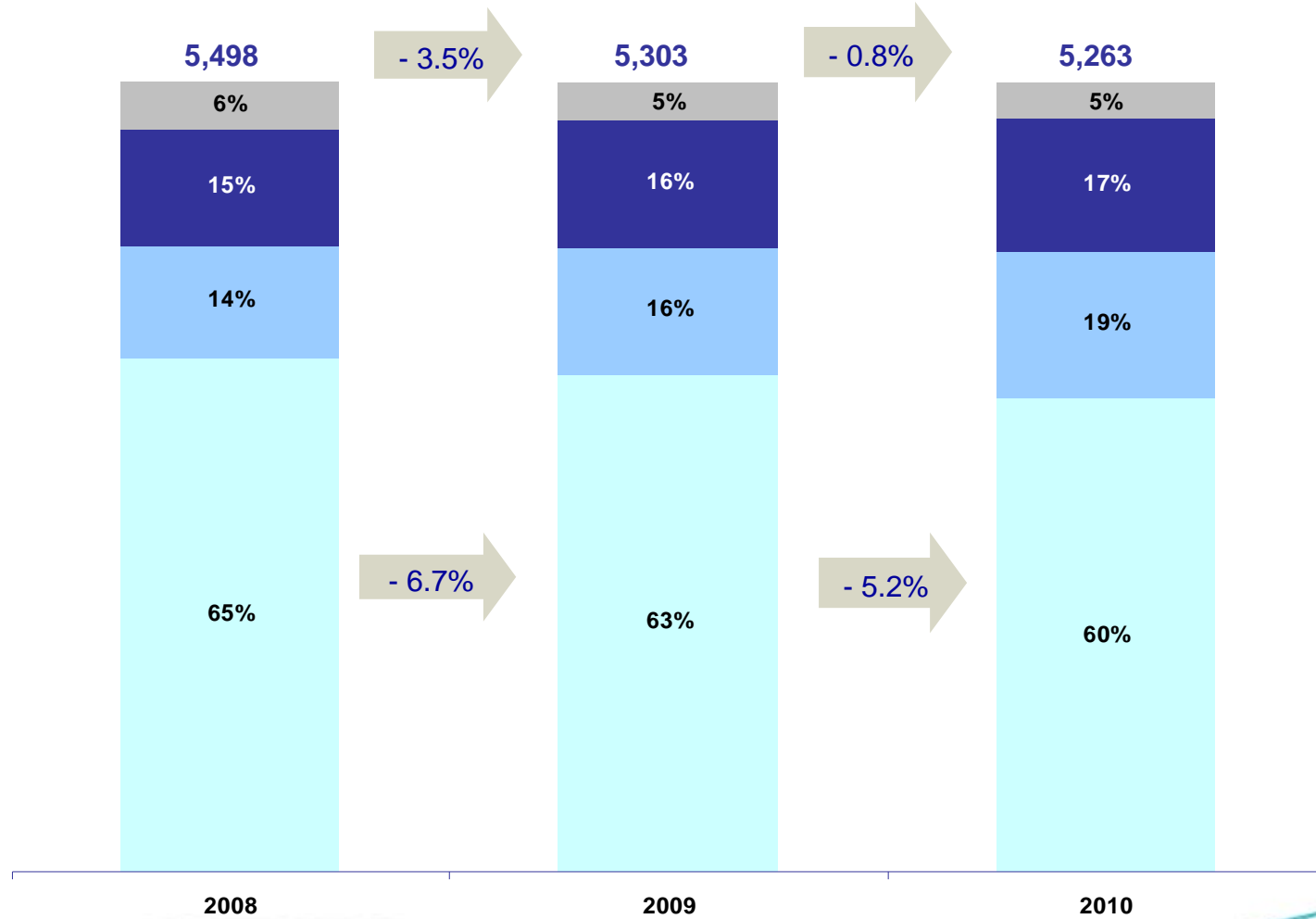
Full year capex increased 23.3% YoY to NIS 1.0 bn, as capex-to-sales expands to 19.8% versus 15.9% in 2009, primarily due to investments in NGN

Bezeq Fixed-Line Revenue Analysis



Mitigating telephony revenue erosion by growing broadband Internet, data & transmission services

Fixed Line Revenue NIS MM



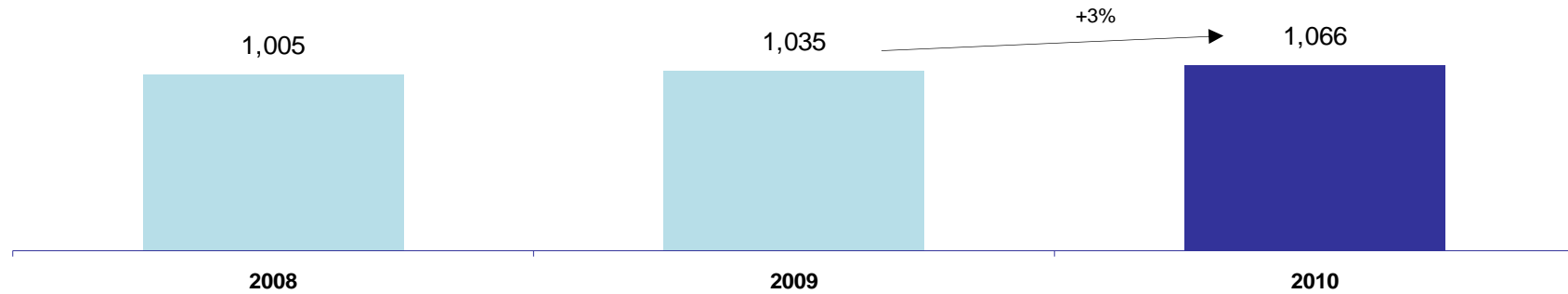
■ Telephony ■ Internet ■ Transmission & Data ■ Other services

Broadband KPIs

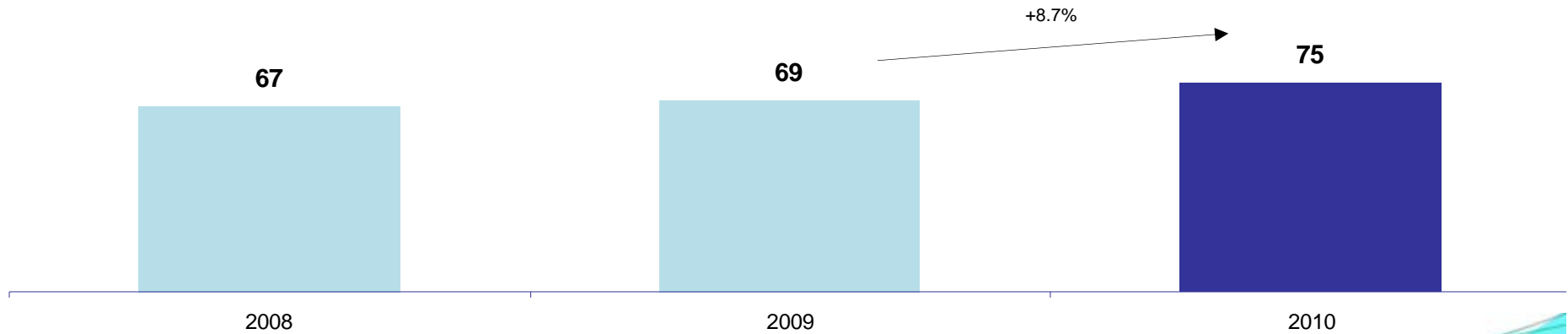


NGN rollout generates higher broadband Internet demand, resulting in higher value access packages

Broadband Internet Lines '000



Broadband Internet ARPU* NIS/Month



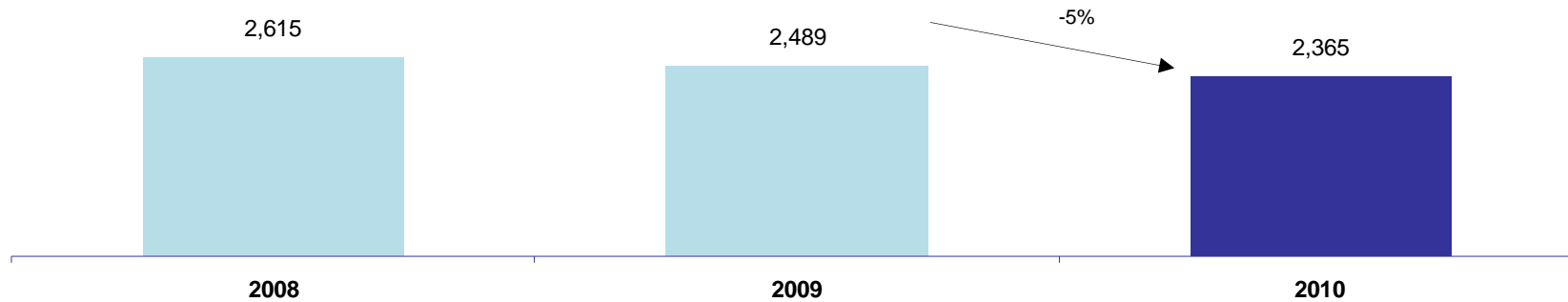
* Retroactively adjusted to exclude revenues from business directory services

Domestic Telephony KPIs

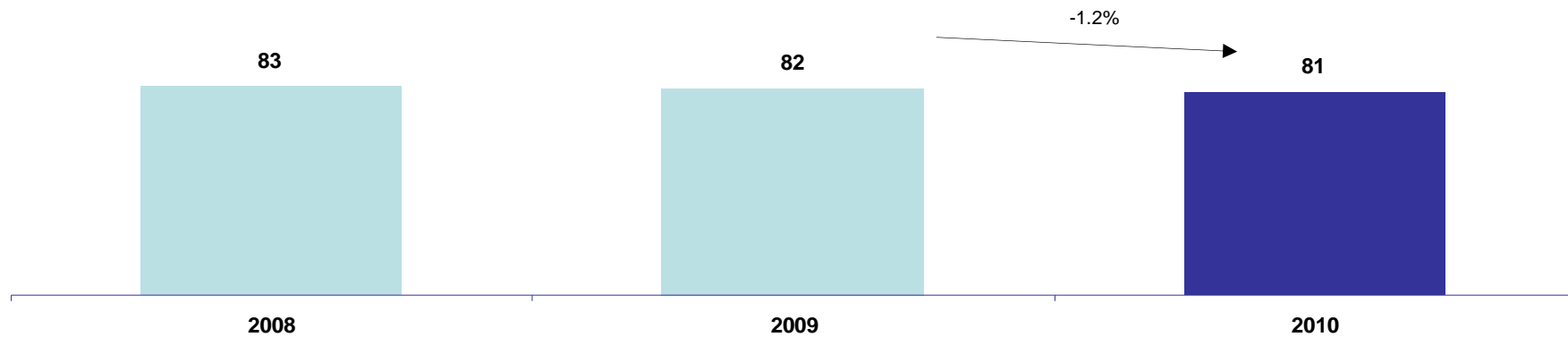


Traditional telephony line attrition continues, but at a stable rate

Access Lines '000



ARPL (1) NIS/Month



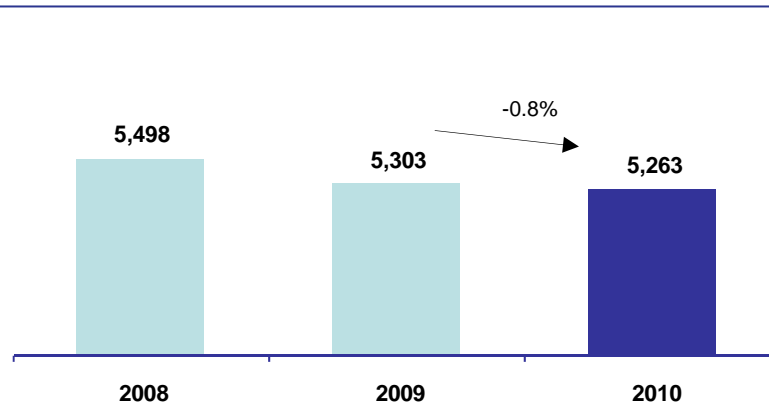
1. Not including revenues from data communications and transmission services, internet services, services to communications providers, and contract and other services.

Bezeq Fixed-Line Financial Performance

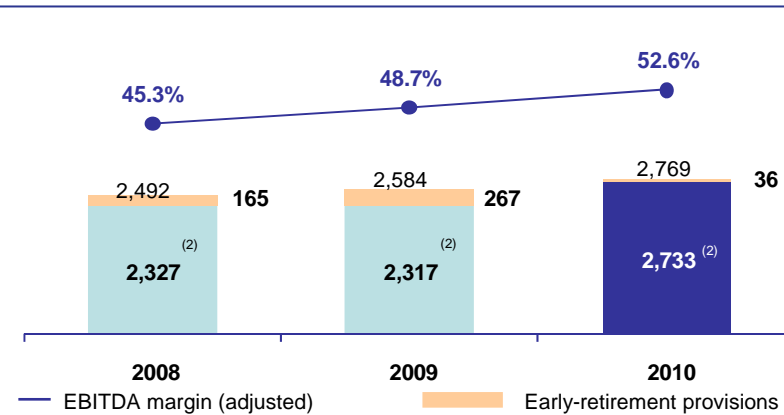


Robust EBITDA and free cash flow performance despite revenue erosion

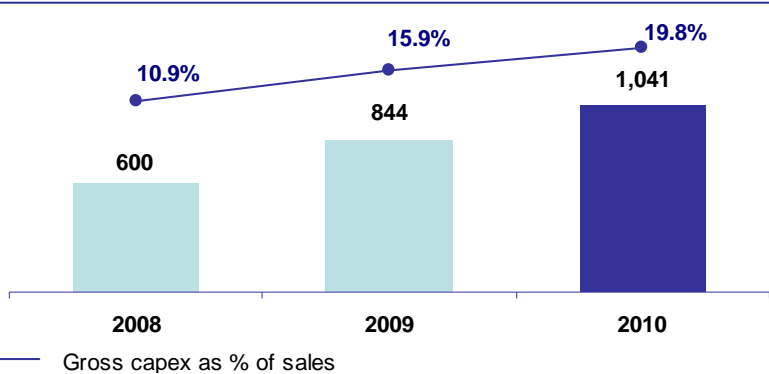
Fixed-Line Revenue NIS MM



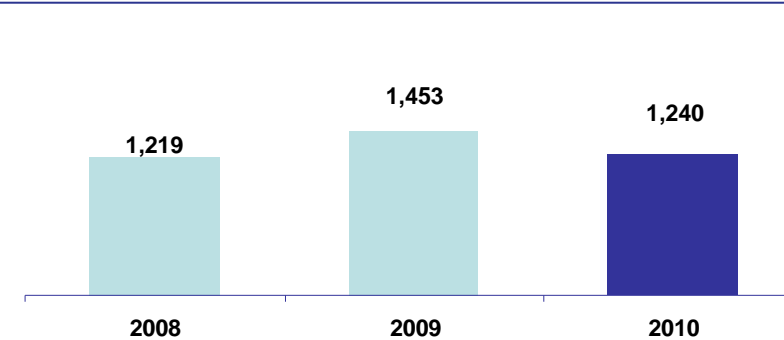
Fixed-Line EBITDA NIS MM



Fixed-Line Gross Capex NIS MM



Fixed-Line Free Cash Flow ⁽¹⁾ NIS MM



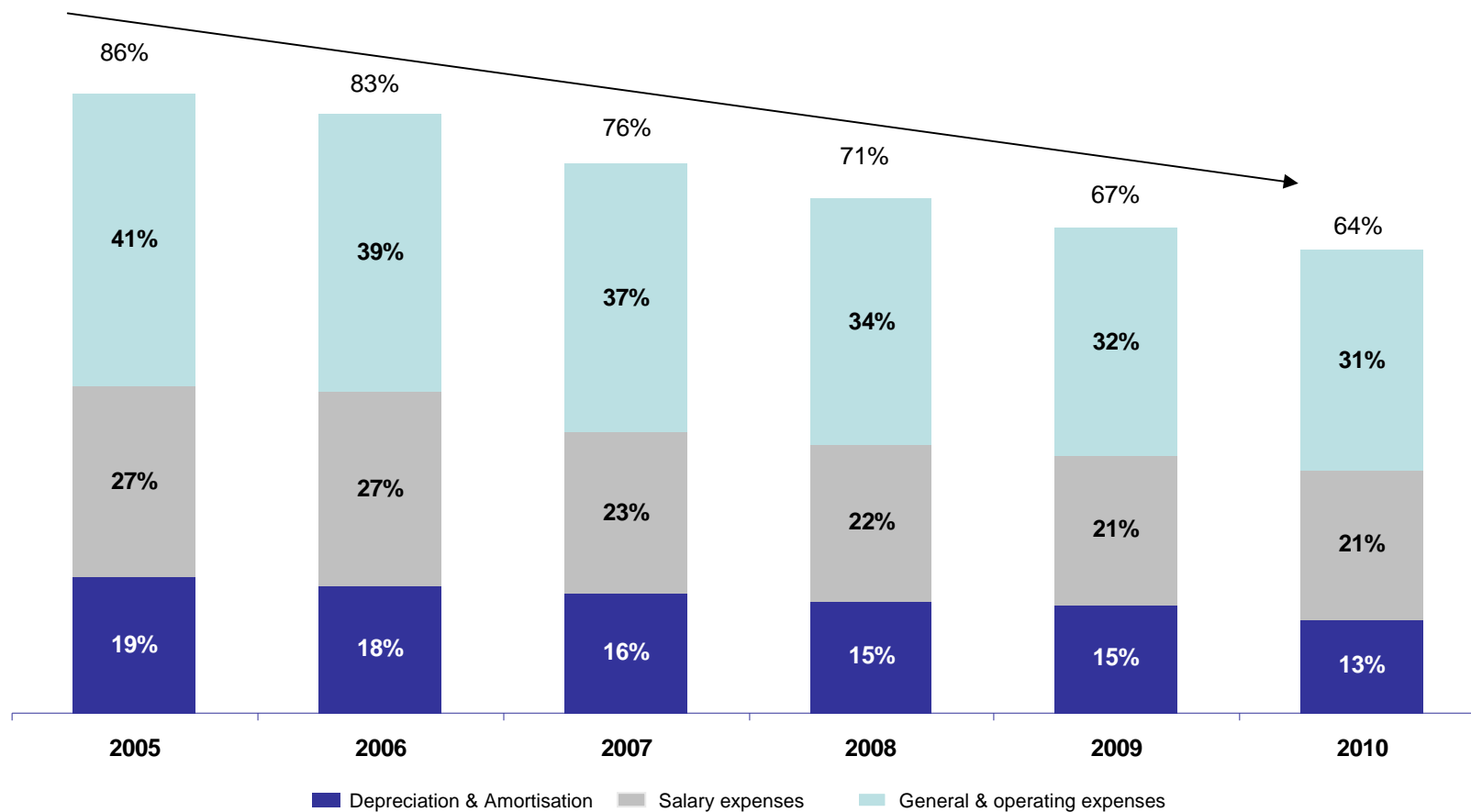
1. Free cash flow defined as Cash Flow from Operations– Net Capex
2. Includes costs related to employee options (NIS 36MM in 2010, NIS 45MM in 2009 and NIS 73MM in 2008)

Bezeq Fixed-Line Cost Structure Development



NGN deployment reflects potential for further increase in operational leverage

Cost Structure ⁽¹⁾ % of revenues



1. Excluding capital gains/losses, early retirement-related provisions and other expenses/income.

Bezeq Fixed-Line Strategic Roadmap



- ⌚ Focus on growing areas such as broadband, data, transmission and value-added services
 - ⌚ Leverage NGN infrastructure to offer advanced, IP-centric applications and value-added services

- ⌚ Focus on customers' needs to enhance customer loyalty and retention
 - ⌚ Residential customers: fully integrate their home communications and entertainment services
 - ⌚ Business customers: provide infrastructure, applications and solutions that are business-critical

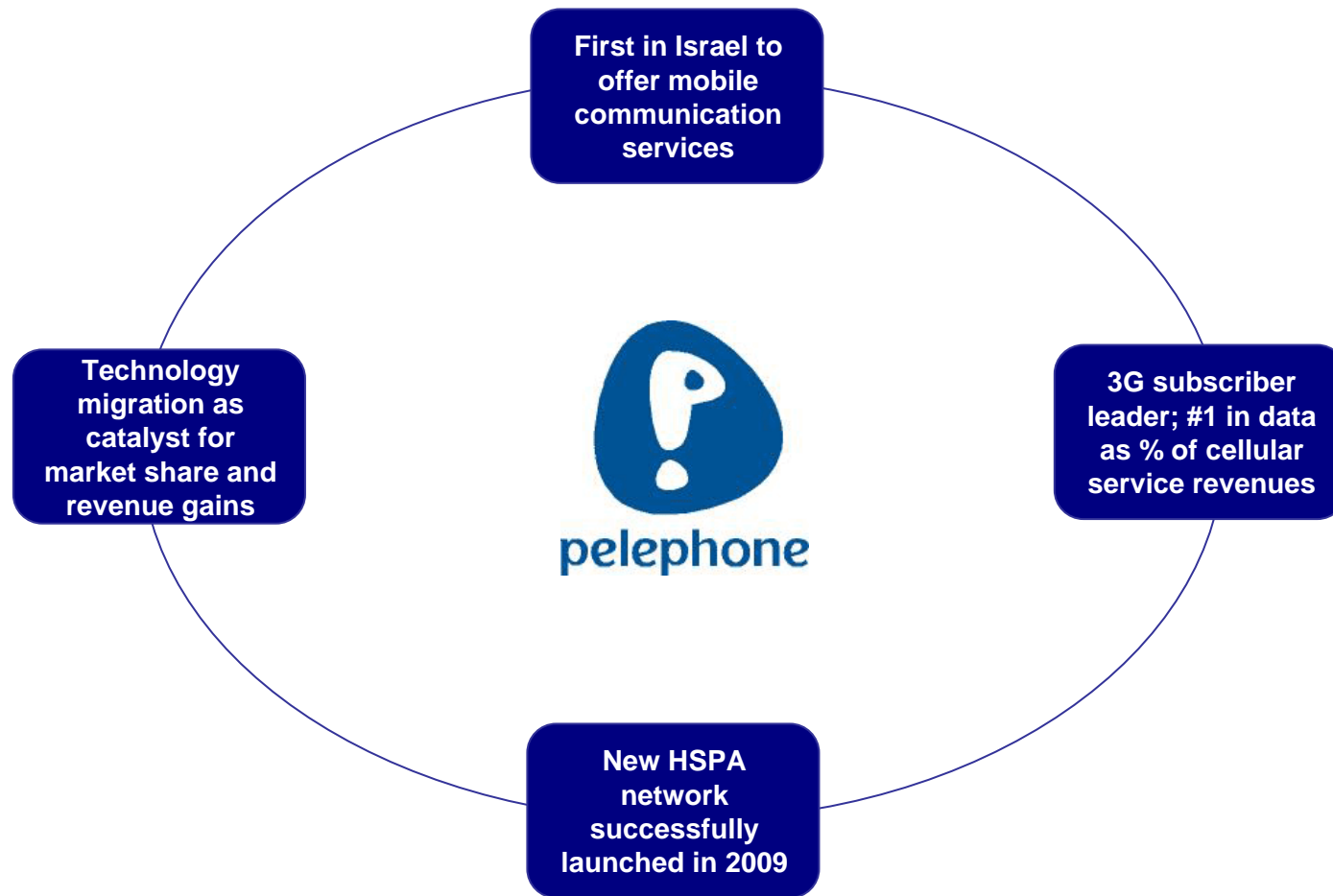
- ⌚ Streamline operating cost structure further
 - ⌚ Implementation of measures to increase workforce productivity and rationalize costs

- ⌚ NGN positions Bezeq to compete in increasingly converged communications and media markets, while enhancing its profitability potential



pelephone

A strong player in the Israeli mobile communications market



⌚ HSPA network strategy yields significant operational benefits

- ⌚ Total revenues grew 6.6% YoY to NIS 5.73 bn; service revenues grew 6.9% YoY, led by data, VAS, roaming
- ⌚ EBITDA increased 10.6% YoY to NIS 1.98 bn, for a 34.6% EBITDA margin versus 33.4% in 2009
- ⌚ Operating and net profit grew 16.2% and 18.1% YoY to NIS 1.38 bn and NIS 1.03 bn respectively

⌚ Higher usage profile on HSPA network translates into improved ARPU and MOU

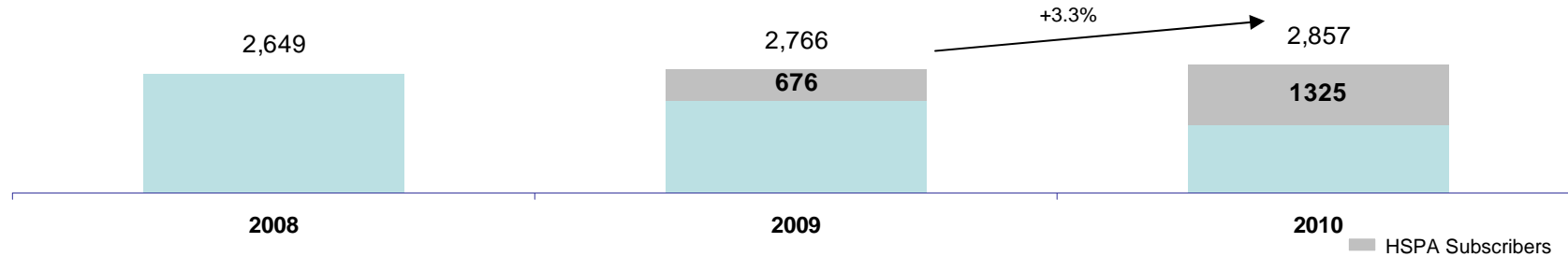
- ⌚ 46% of Pelephone's subscribers were on the HSPA network as of Dec 31, 2010
- ⌚ Revenues from data, VAS and content reached an Israeli industry high 25% of cellular service revenues in Q4 2010
- ⌚ ARPU reached NIS 135 in 2010 vs. NIS 132 in 2009
- ⌚ MOU increased to 349 minutes in 2010, up 4.8% YoY

⌚ Continued revenue growth and profitability gains led to improved operating and free cash flows

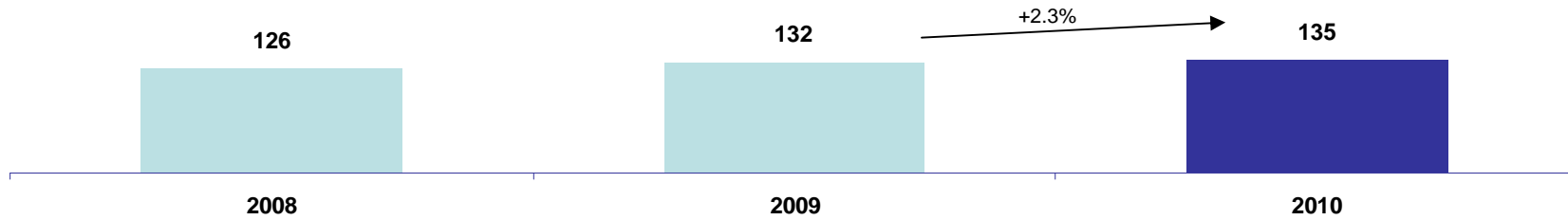
- ⌚ Operating cash flow reached NIS 1.22 bn, up 9.3% YoY
- ⌚ FCF reached NIS 822 million, up 46.8% as capex-related payments declined 15.2% YoY to NIS 431 million

Growth in usage of data, VAS, content and roaming services drives improved ARPU and profits

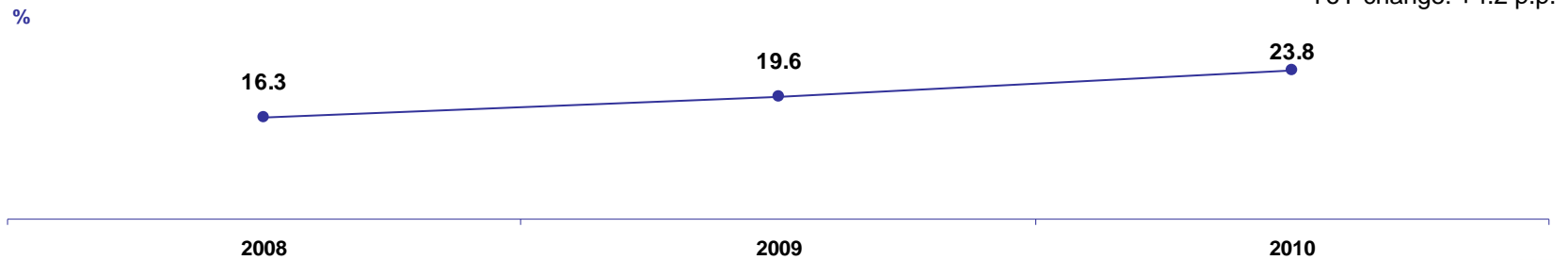
Subscribers '000



ARPU NIS/Month



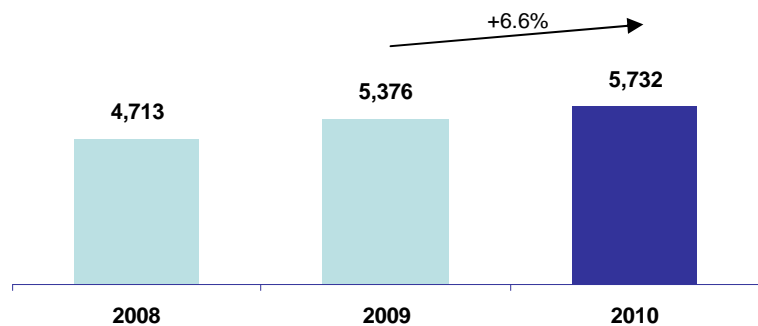
Data, VAS, and content revenue as a percentage of cellular service revenue ⁽¹⁾



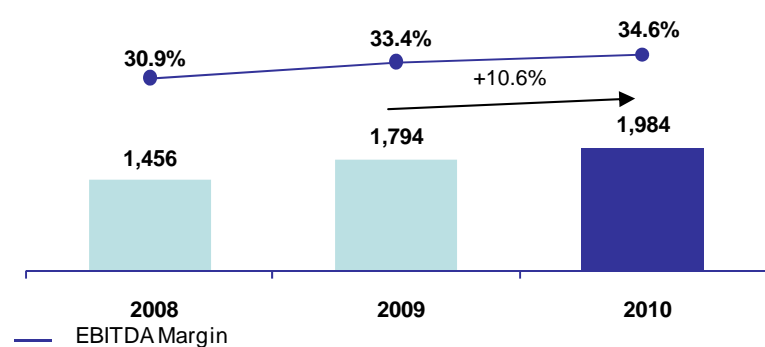
1. Includes telephony and data services but excludes sale of equipments and equipment services

Strong Revenue, EBITDA and FCF growth

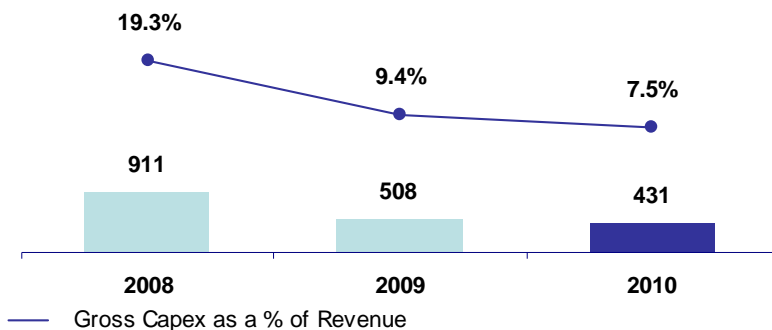
Pelephone Revenue
NIS MM



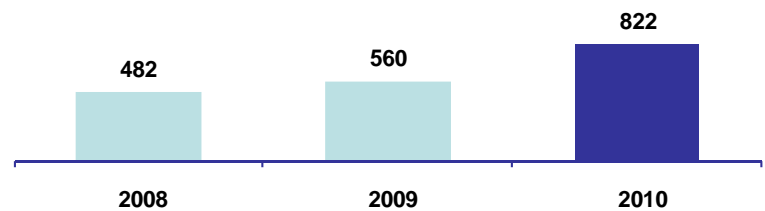
Pelephone EBITDA
NIS MM



Pelephone Gross Capex
NIS MM



Pelephone Free Cash Flow ⁽¹⁾
NIS MM



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

- ⌋ Position Pelephone as a leader in advanced mobile communications
 - ⌋ Launch innovative services such as data, media and entertainment services to consumers and businesses
 - ⌋ Continue improving brand perception to support momentum created by HSPA launch

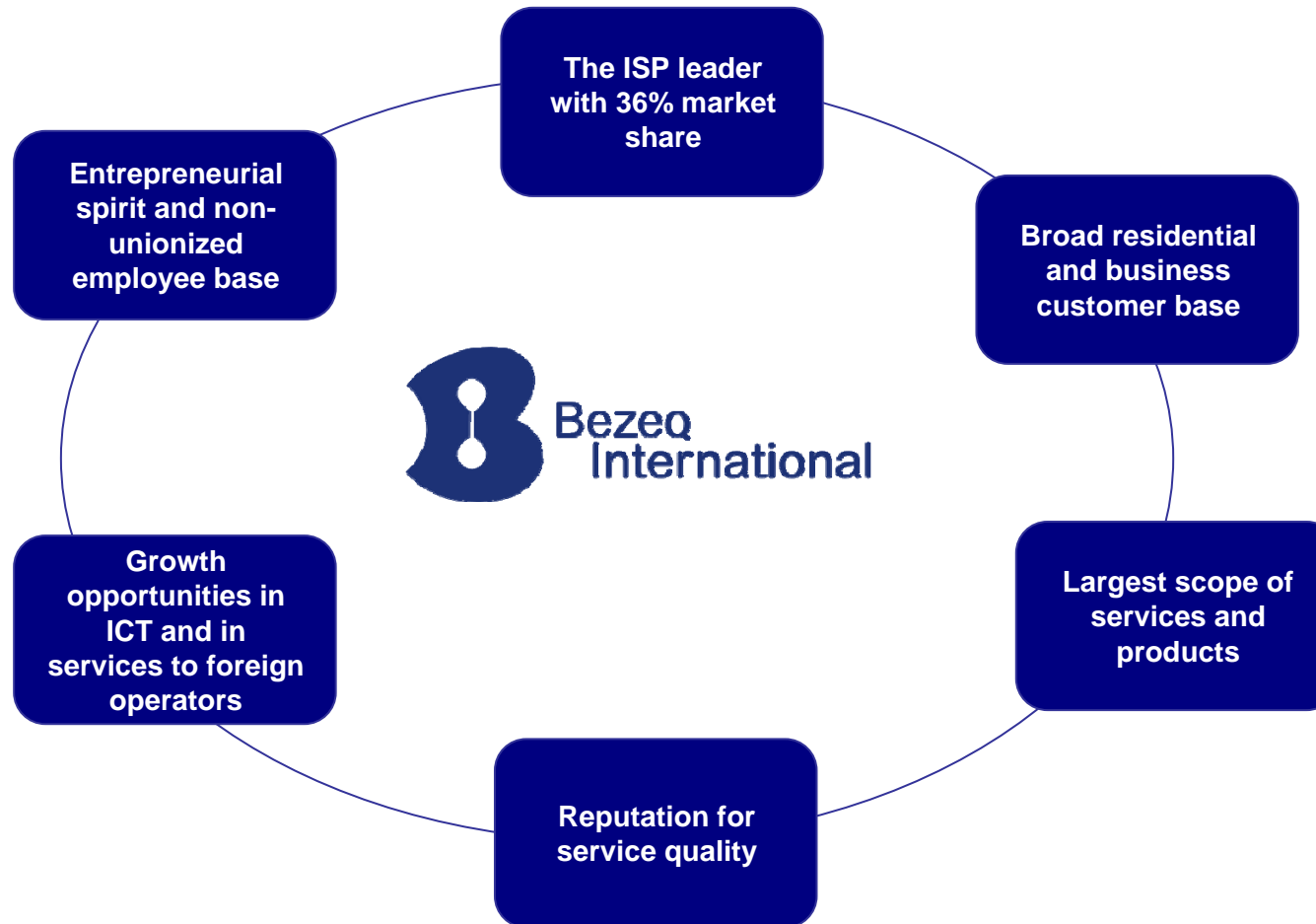
- ⌋ Capitalize on HSPA network success to drive revenue and profits expansion
 - ⌋ Expand addressable market and enhance ability to tap more profitable segments
 - ⌋ Benefit from attractive and diversified handset offering
 - ⌋ Grow international roaming revenues with increase in HSPA subscribers

- ⌋ Maintain customer focus and high quality of customer service

- ⌋ Focus on working capital management to improve cash flow generation



A leader in the ISP and ILD market segments in Israel with growing operations in the ICT market





! Continued revenue growth combined with solid profitability

- ! Revenues reached NIS 1.38 bn in 2010, up 4.8% YoY, driven by growth in ICT, ISP and hubbing activities
 - ! Continued erosion in revenues from ILD and PBX segments
- ! Net profit increased to 253 million up 26.6% YoY, benefiting from gains from the consolidation and sale of Walla! to Bezeq
- ! EBITDA reached NIS 414 million, up 20.0% YoY, for an EBITDA margin of 30.0% vs. 26.2% in 2009

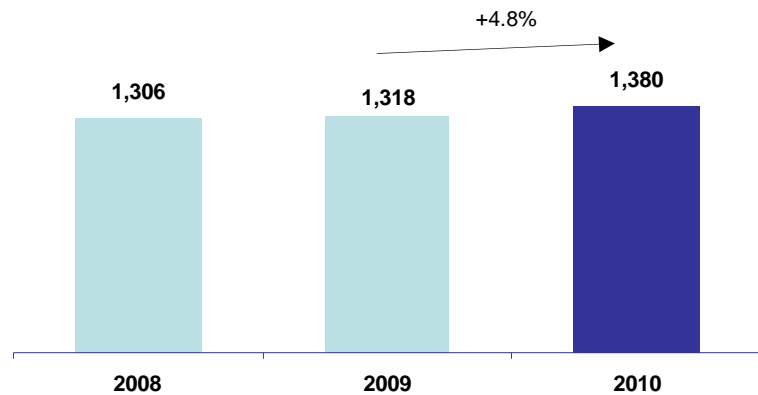
! Continued leadership in highly competitive ISP segment and rapid expansion of ICT business

- ! Bezeq International combines #1 position in the ISP market with highest profitability among competitors
- ! Successful bids in major ICT tenders confirms Bezeq Int'l's position and strategy in this growing space
- ! New investment in submarine cable will significantly enhance customers' communications and media experience - and Israel's international data communications capacity

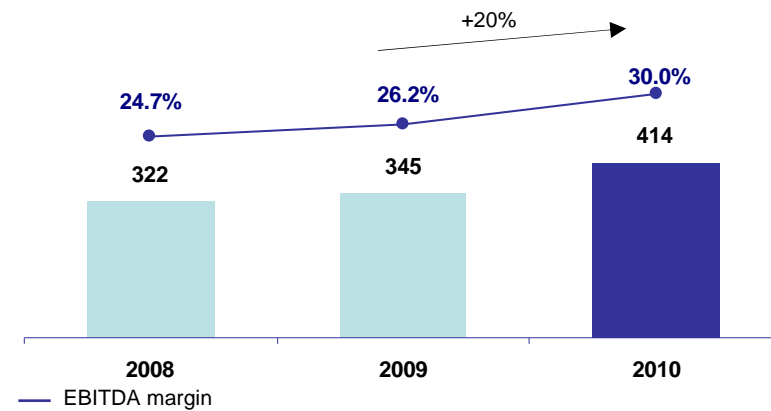
! Cash flow generation

- ! OCF reached NIS 292 million, down 8.8% YoY, due to increased working capital requirements
- ! FCF of NIS 112 million, down 43.9% YoY due to increased capital expenditures.

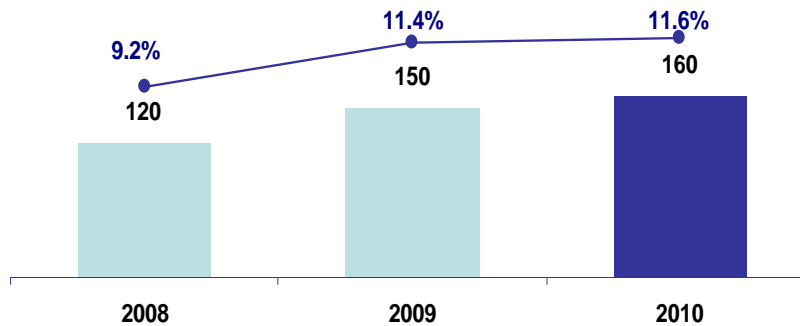
Bezeq International Revenue
NIS MM



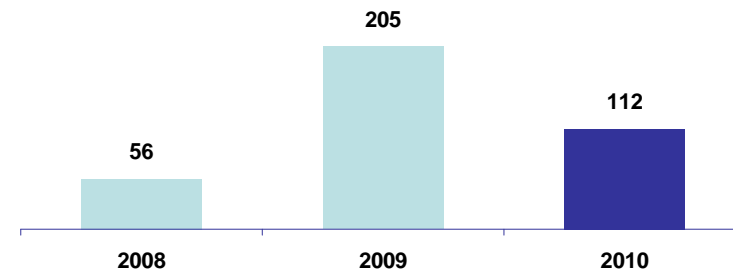
Bezeq International EBITDA
NIS MM



Bezeq International Gross Capex
NIS MM



Bezeq International Free Cash Flow (1)
NIS MM



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



- ⌚ Maintain leadership in Israel's Internet Service Provider (ISP) market for private & business customers
 - ⌚ Continued focus on leading quality of service and market perception
 - ⌚ Capitalize on existing market presence to lead the transition to ultra-fast Internet services
 - ⌚ Deepen and broaden portfolio of "cloud-based" solutions

- ⌚ Further strengthen ICT presence leveraging wide business customer base

- ⌚ Expand range of communication solutions and services to suit customers' needs
 - ⌚ Differentiated infrastructure, including submarine cable, provides growth potential
 - ⌚ Strengthen sales and distribution channels

- ⌚ Continued focus on cost control to deliver solid profitability

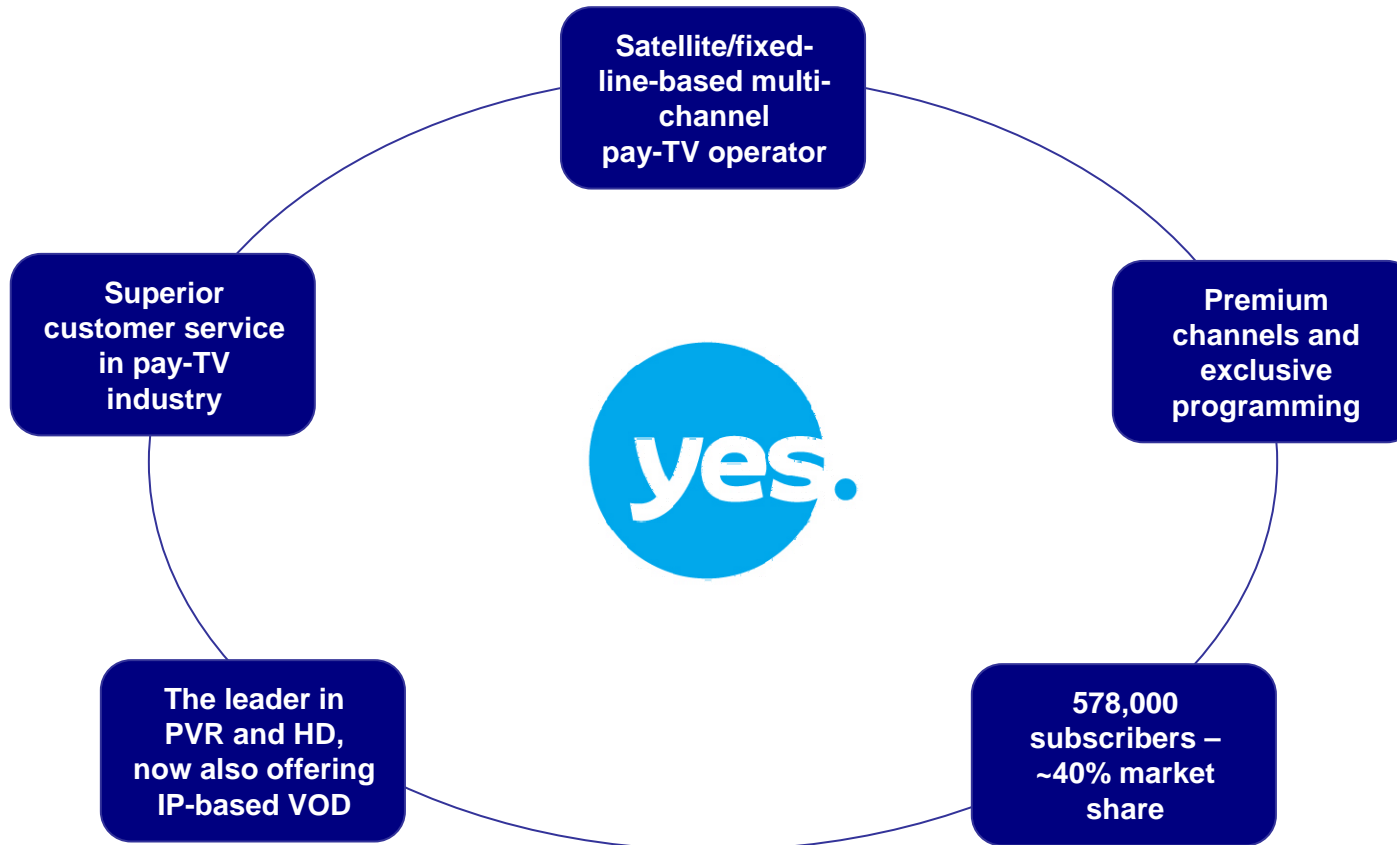




yes Overview



The premium pay-TV operator in Israel





yes 2010 Highlights



! Solid revenue growth despite increased market competition

- ! Revenues reached NIS 1.58 bn, up 3.4% YoY, driven mainly by growth of advanced pay-TV services
 - ! Total subscribers increased 1.2% YoY to approx. 578,000
- ! EBITDA reached NIS 463 million, down 4.0% YoY, for an EBITDA margin of 29.3% vs. 31.5% in 2009
- ! Net loss increased to NIS 314 million from NIS 222 MM in 2009 due to one-time charge for retroactive royalties to ACUM

! Value added services contribute to ARPU improvement

- ! ARPU grew 1.8% YoY to NIS 230 as yes increased sales of VAS such as yesMax, PVR service, yesMaxHD, and IP-based VOD

! Free cash flow expansion

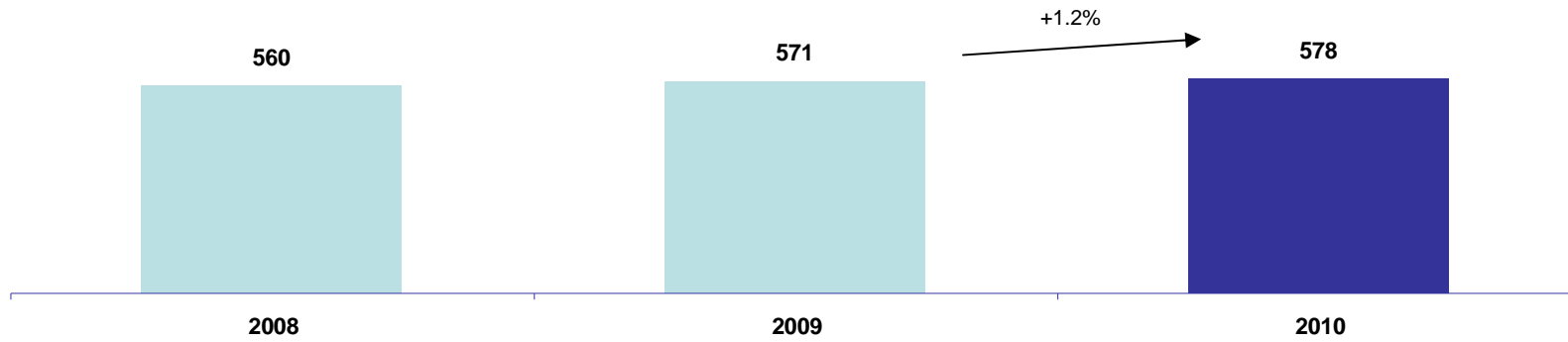
- ! Operating cash flow increased to NIS 488 million, up 19.2% YoY
- ! FCF increased to NIS 211 million, up 41.8% YoY



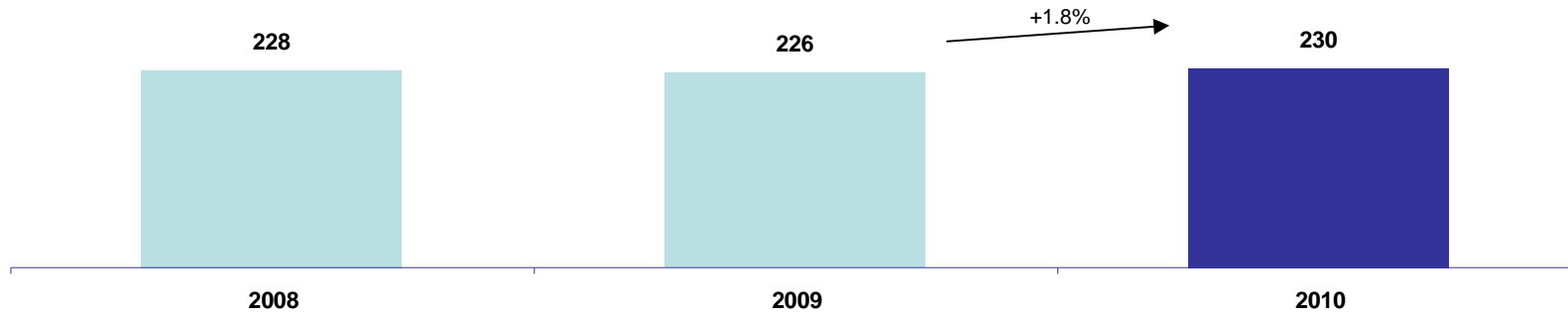
yes KPIs



Subscribers
'000, end of period



ARPU
NIS/Month, avg per quarter



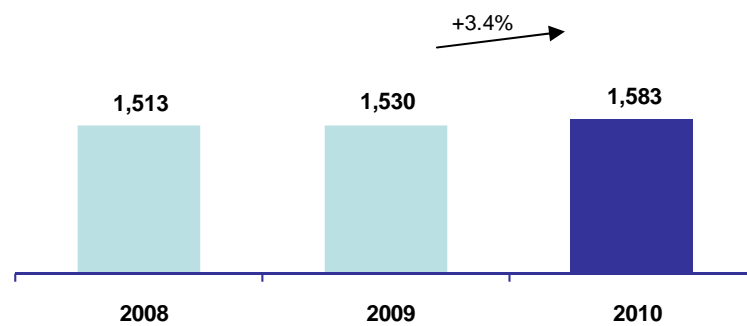


yes Financial Performance

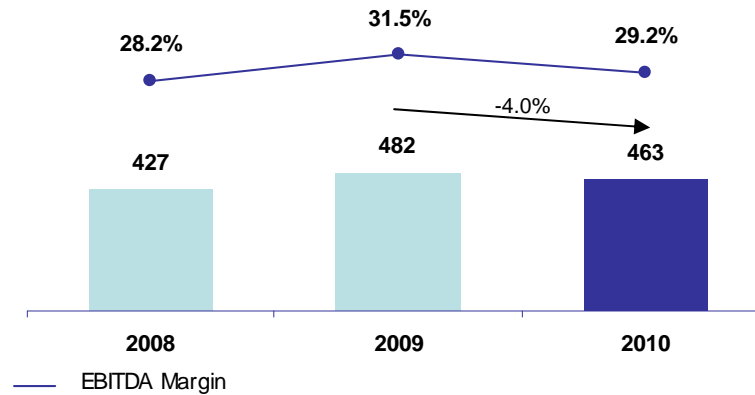


Revenue growth supports strong FCF performance

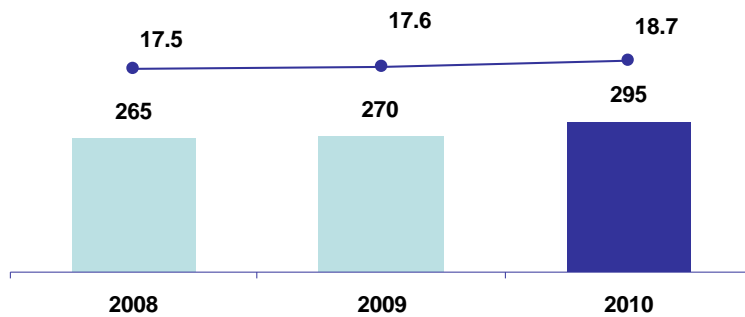
yes Revenue
NIS MM



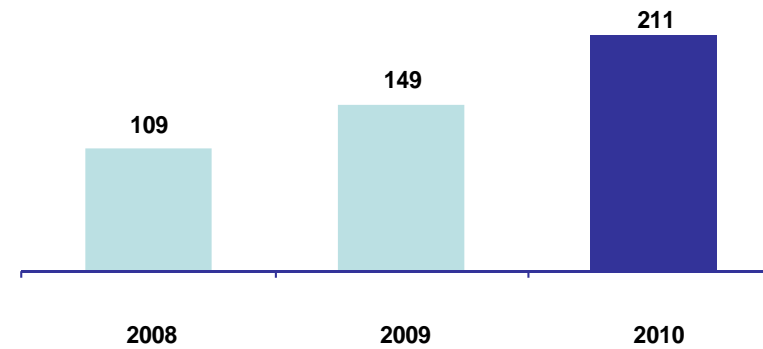
yes EBITDA
NIS MM



yes Gross Capex
NIS MM



yes Free Cash Flow ⁽¹⁾
NIS MM



— Gross Capex as a % of Revenue

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



yes Strategic Roadmap



- ‡ Focus on increasing yes segment revenues in a competitive environment
 - ‡ Continue growth in number of yes subscribers
 - ‡ Promote sales of advanced value added services such as yesMax, MaxHD, VOD & premium channels
 - ‡ Consistently developing exclusive proprietary and differentiated multimedia content and services
 - ‡ Improving average revenue per user (ARPU)

- ‡ Support premium yes brand and visibility in the market
 - ‡ Investing in marketing and sales aimed at customer recruitment, preservation as well as service upgrades

- ‡ Leverage advanced technologies to capitalize on convergence of communications platforms and multimedia content and applications
 - ‡ Providing yes content on additional platforms so as to increase revenues and subscriber satisfaction and loyalty
 - ‡ Explore innovative technological solutions and channels to improve content distribution and productivity



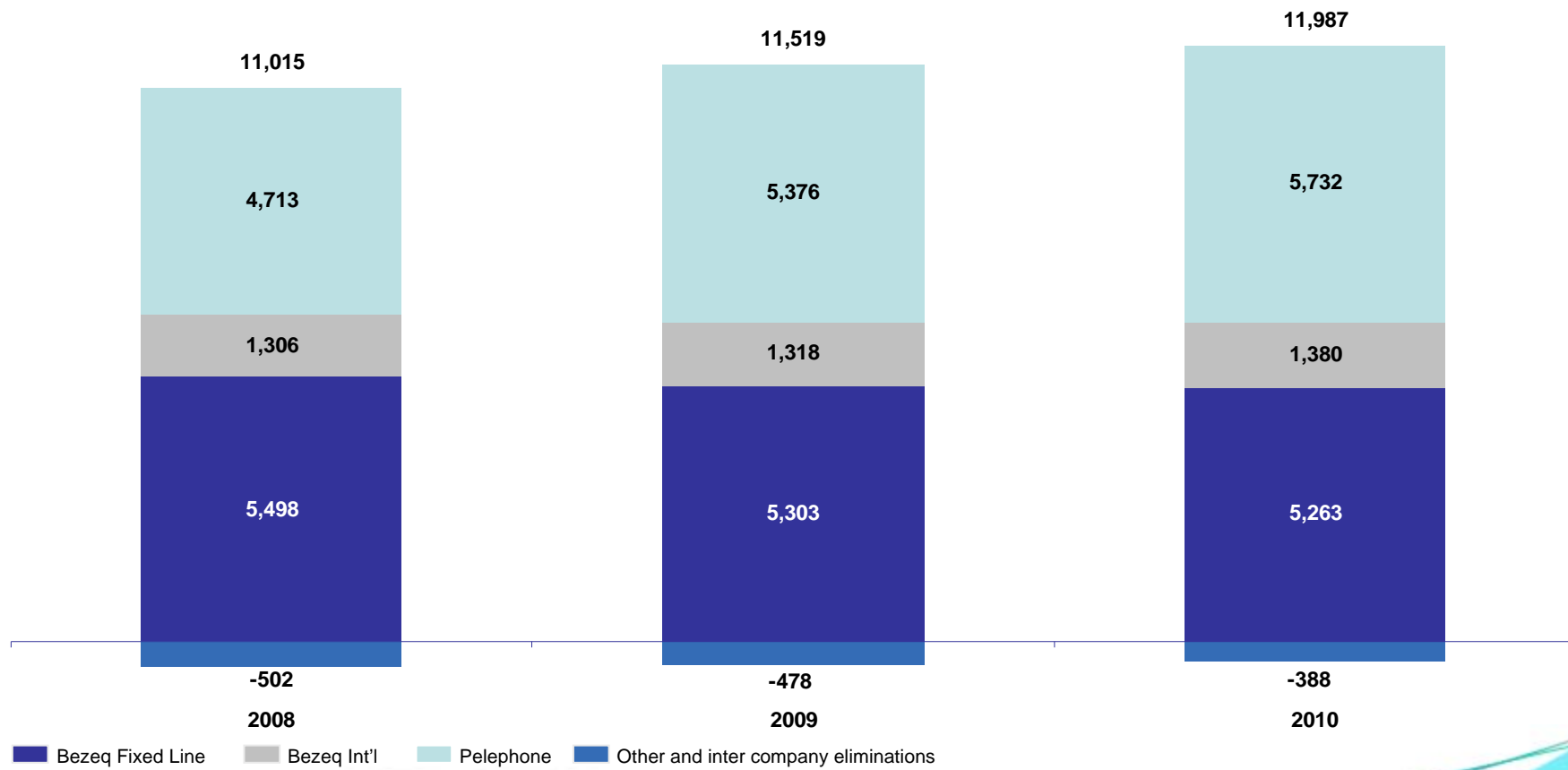
**Bezeq Group
Financial Review**

Revenue Development



Revenue of consolidated subsidiaries net of inter-company eliminations

Group Revenue
NIS MM

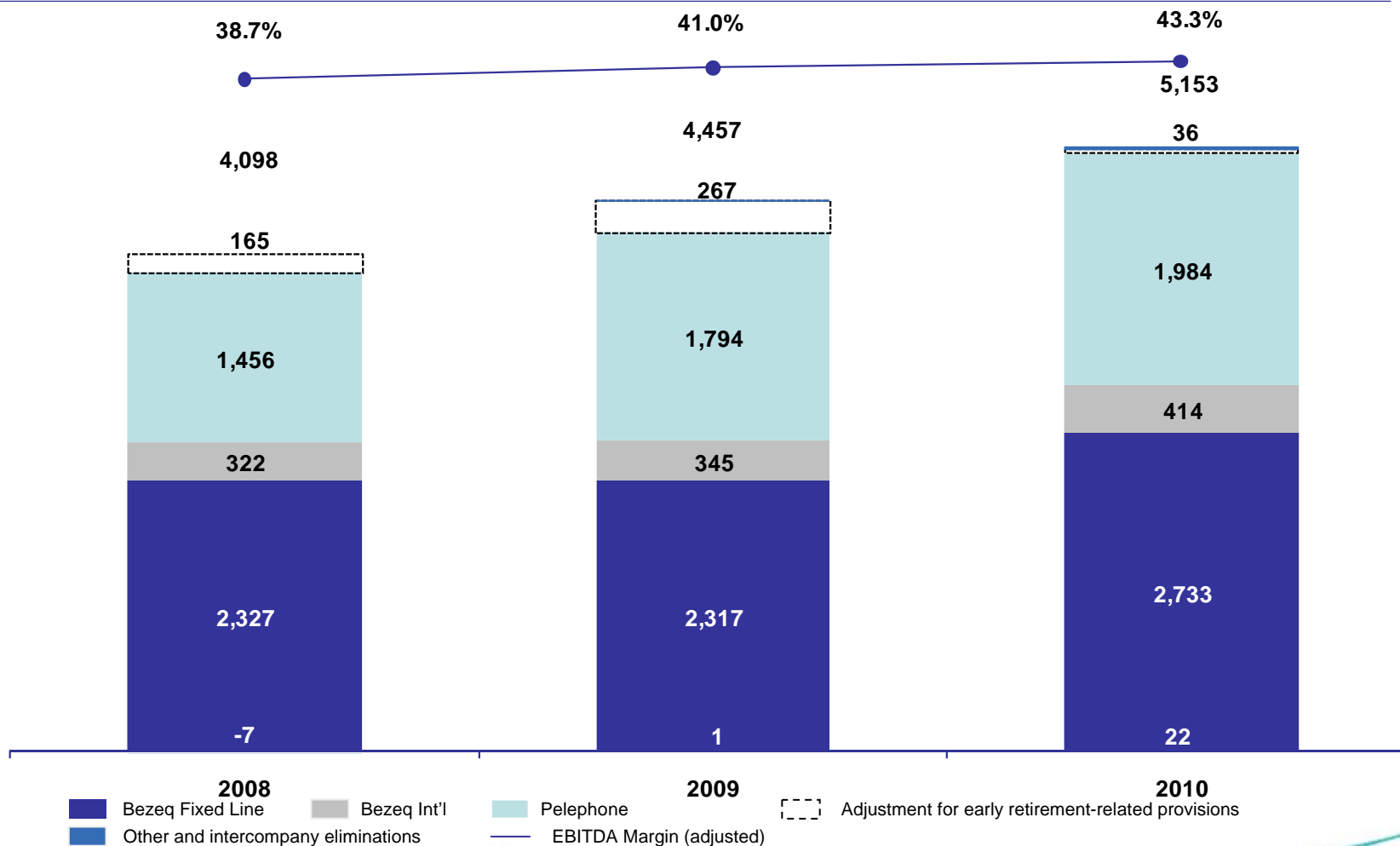




EBITDA Development

Sustained EBITDA growth with significant EBITDA margin improvement

Group EBITDA NIS MM

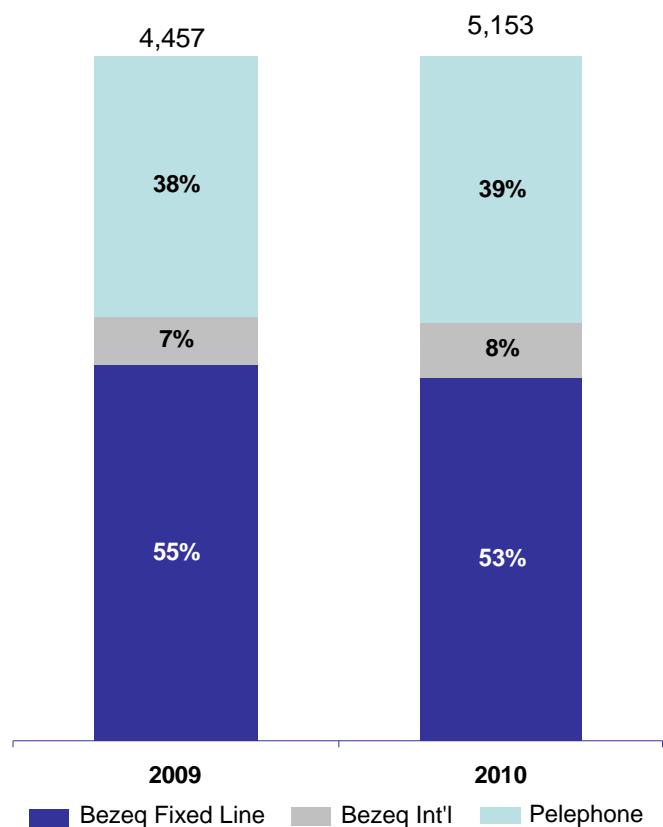




EBITDA Mix and Margins

YoY EBITDA margin improvement in major operating segments

Subsidiaries' Contribution to Group EBITDA ^{(1) (2)}
NIS MM



EBITDA Margin per Business Segment

	2009	2010	Change (p.p.)
Bezeq Fixed-Line	43.7%	51.9%	+8.2 p.p.
Bezeq International	26.2%	30.0%	+3.8 p.p.
Pelephone ⁽³⁾	33.4%	34.6%	+1.2 p.p.
Bezeq Group ⁽²⁾ (exc. yes)	38.7%	43.0%	+4.3 p.p.
yes	31.5%	29.3%	-2.2 p.p.

1. Pro-forma excluding yes' results.

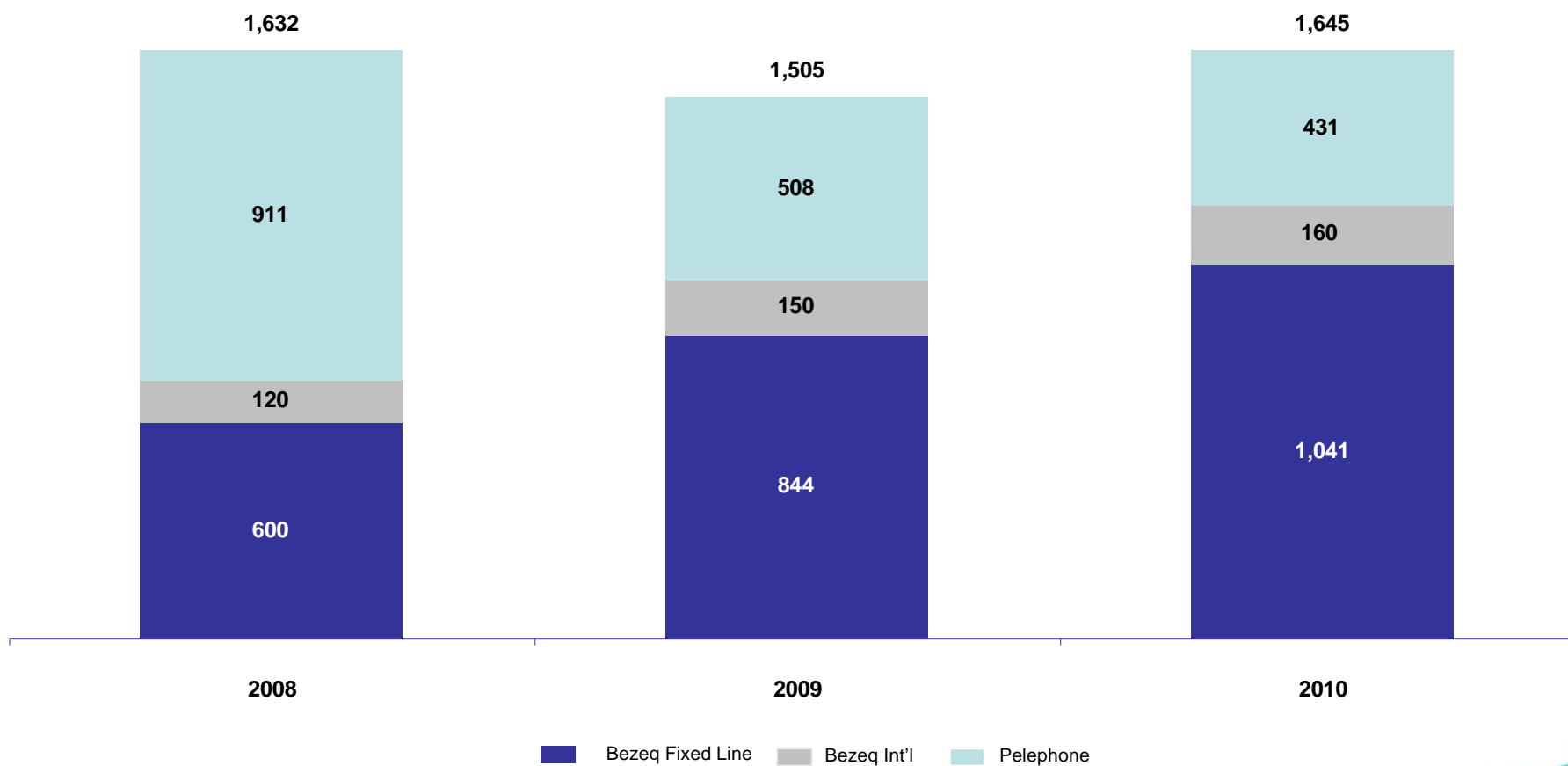
2. Bezeq Group's 2010 reflects consolidation of Walla! as of April 25, 2010.



Capex Development

Capex-to-sales ratio remains below 14% in 2009-2010 despite strategic HSPA, NGN investments

Group Gross Capex (gross payments)
NIS MM

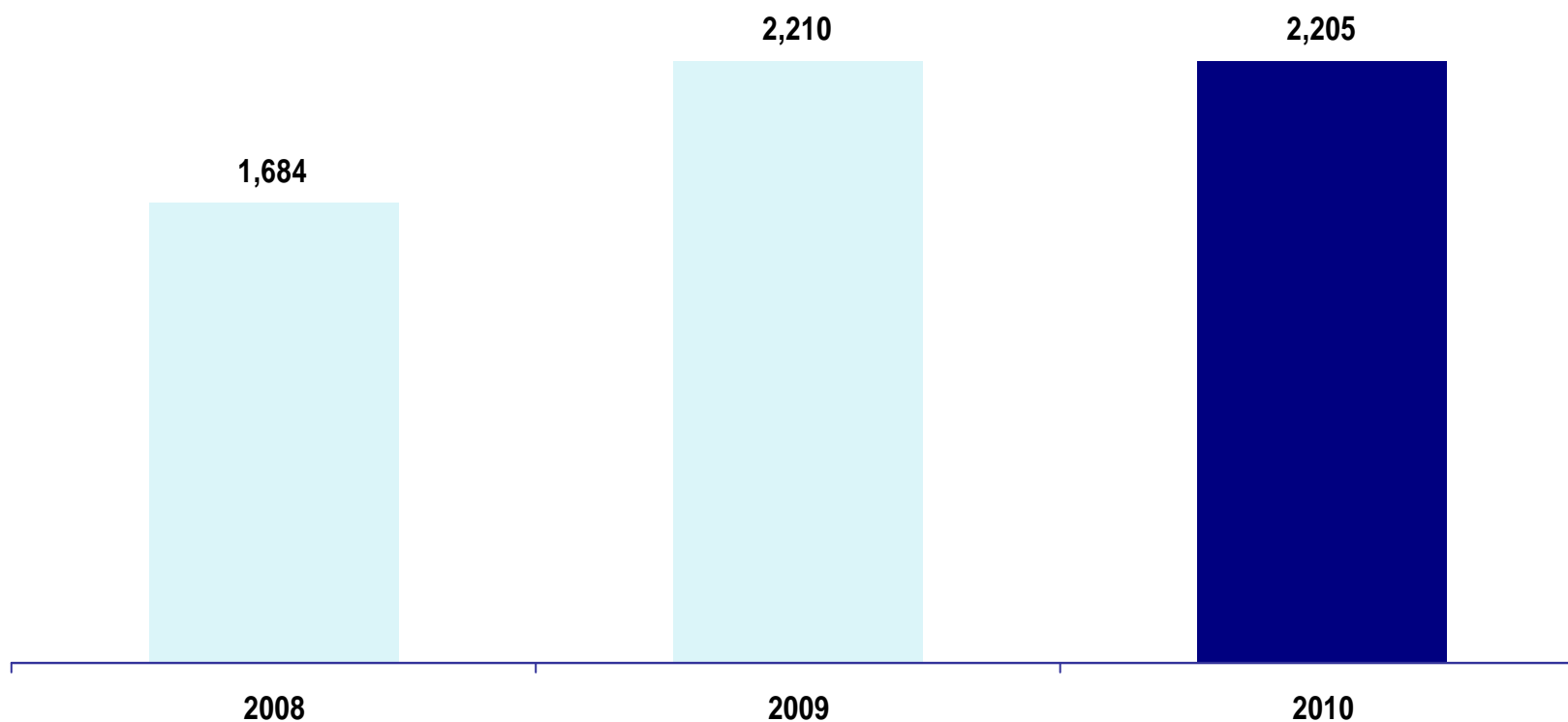




Free Cash Flow Development

Robust cash flows allow for continued investment in advanced infrastructure and attractive dividends

Group Free Cash Flow ⁽¹⁾
NIS MM



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



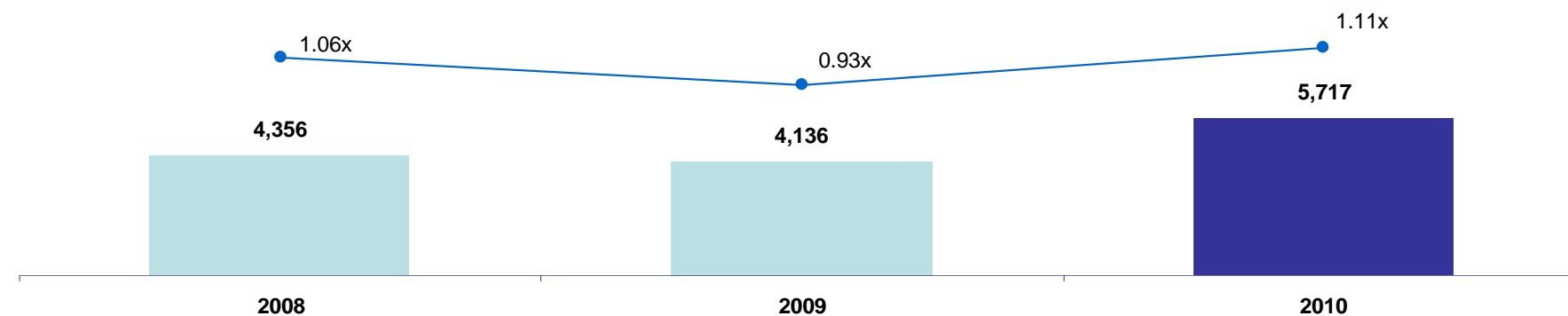
Group Financial Profile

Strong financial profile allows for attractive shareholder remuneration

Group Gross Debt

NIS MM

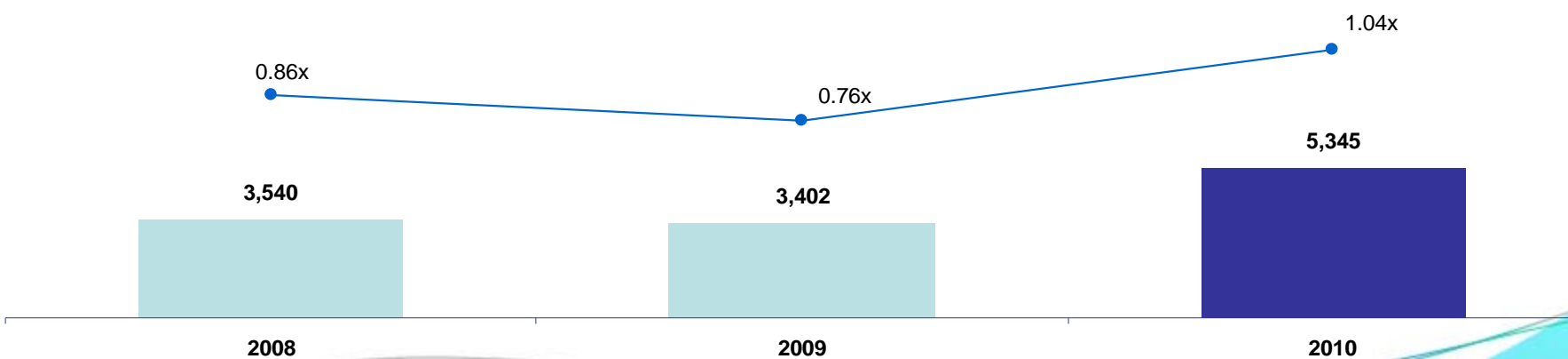
— Gross Debt / EBITDA



Group Net Debt

NIS MM

— Net Debt / EBITDA





Thank You

**For additional
information,
please visit our website:**

www.bezeq.co.il