



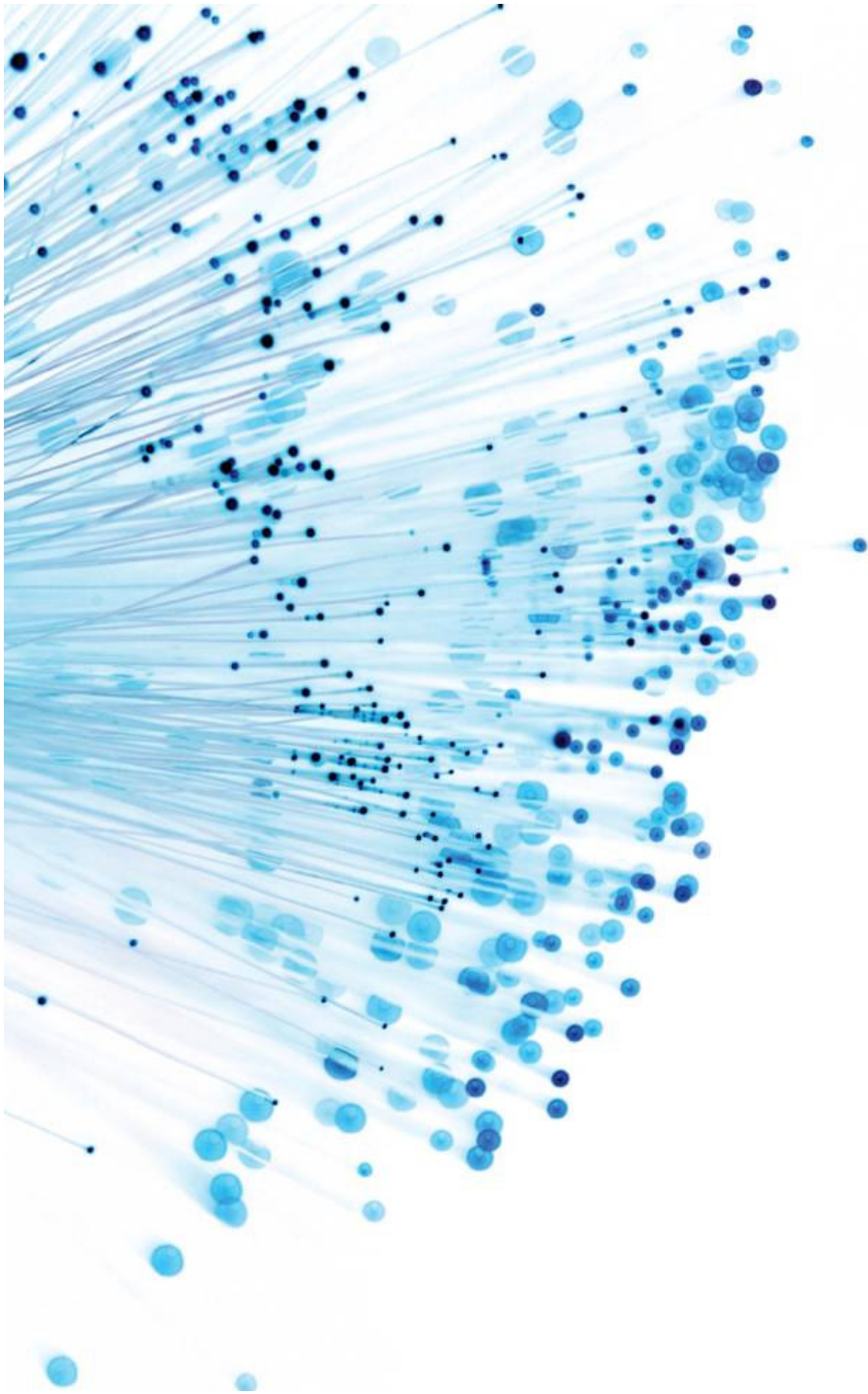
Second Quarter 2010 Results

Investor Presentation



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 Group

Overview



Summary Highlights

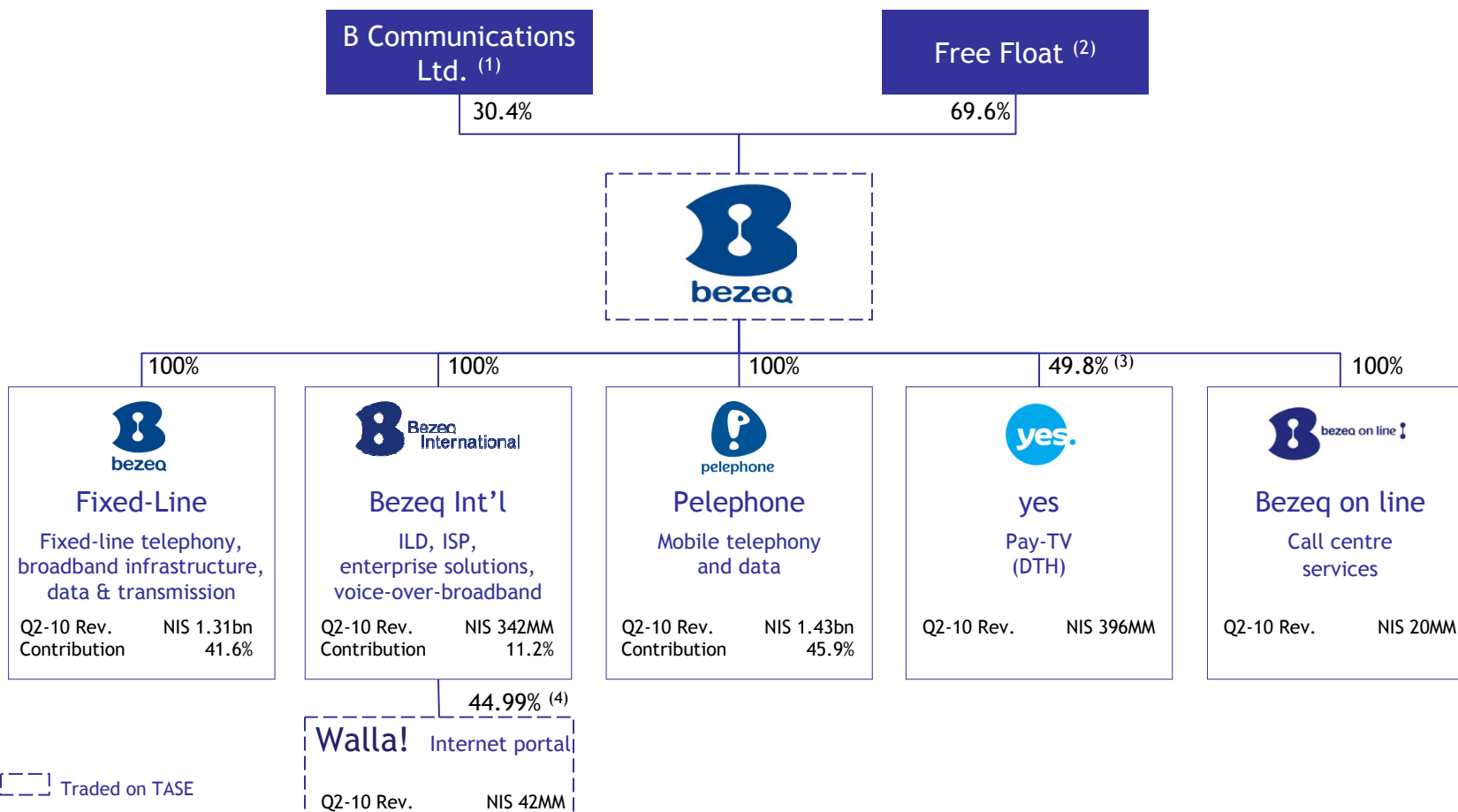
The most comprehensive communications infrastructure and service provider in Israel





Bezeq Group Profile

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



1. B Communications Ltd. is controlled by Internet Gold - Golden Lines Ltd. (75.3%), which is controlled by Eurocom Communications Ltd. (70%).
 2. Amitim, the manager of 8 senior Israeli pension funds under special management, owns approximately 6.6% of the outstanding shares of Bezeq.
 3. Following a Supreme Court decision which prevents Bezeq from getting control of yes, as of August 21st, 2009, Bezeq ceased consolidating yes' financial results and started accounting for its investment in yes according to the equity method.
 4. Bezeq International transferred an additional 9,902,467 Walla! shares to a trustee who will hold them in a blind trust.



Bezeq Group Q2 2010 Highlights

! Solid top-line growth combined with double-digit gains in all profitability metrics

- ! Revenues grew 3.8% YoY to NIS 2.98bn, as growth in cellular, ISP, and broadband Internet, data and transmission services outpace decline in traditional fixed-line telephony
- ! Net profit to shareholders reached NIS 638MM, up 17.9% YoY
- ! EBITDA reached NIS 1.34bn, up 12.0% YoY; EBITDA margin increased to a robust 44.9% (41.6% in Q2-09)
- ! Results included a one-time profit from the consolidation of Walla! as of April 25, 2010, and a provision made by yes in relation to retroactive royalties claimed by ACUM since 2003

! Strategic network infrastructure projects yield operating benefits

- ! Over 30% of Israeli households are already connected to the NGN
 - ! Proactive subscriber upgrades to higher bandwidths result in 8.7% growth in Internet ARPU
- ! HSPA network success is reflected in above-industry growth from cellular services
 - ! 36% of Pelephone's subscribers on the HSPA network (~1,050k subscribers as of early Aug 2010)

! Bezeq's Board of Directors recommends NIS 1.28bn cash dividend

- ! Dividend yield for 2010 increases to 14.5% from 11.8% in 2009



Operating Segments' Performance in Q2 2010

Strong YoY performance gains across the Bezeq Group

Change in Q2-10 vs. Q2-09	Bezeq		Bezeq		Bezeq Group ²
	Fixed-Line	Pelephone	Int'l ¹	yes ²	
Revenues	-0.8%	+6.2%	+4.7%	+5.3%	+3.8%
Operating profit	+15.9%	+12.8%	+78.6%	-87.7%	+21.0%
EBITDA	+5.5%	+8.3%	+66.8%	-34.2%	+12.0%
EBITDA Margin ³	+3.1 p.p.	+0.6 p.p.	+16.1 p.p.	-12.4 p.p.	+3.3 p.p.
Net profit	+10.4%	+14.6%	+88.5%	-50.1% ⁴	+17.9%
Free cash flow	+96.1%	+101.5%	-46.3%	+38.6%	+73.4%

1. Includes a one-time profit from consolidation of Walla!, but excludes Walla! financials.

2. yes' results include a provision related to retroactive royalties claimed by ACUM since 2003; Bezeq Group results reflect the impact to net profit from such provision.

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

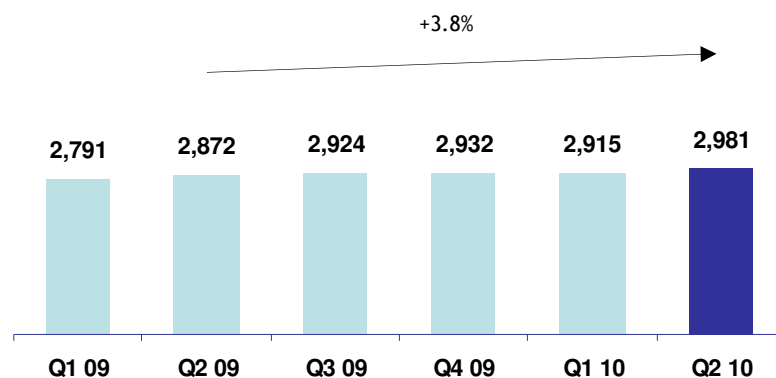
4. yes recorded a 50.1% increase in its net loss in Q2-10.



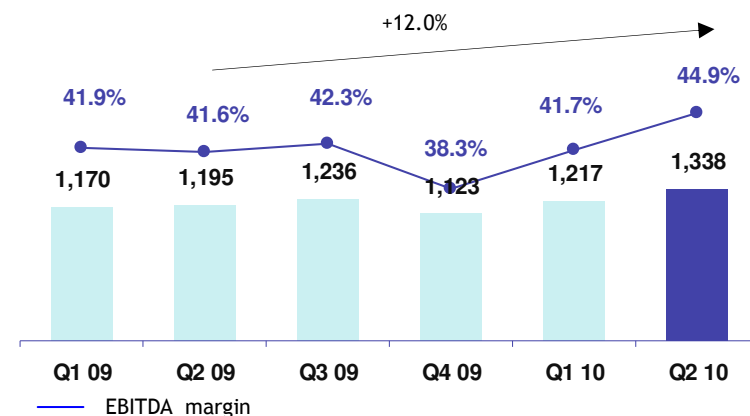
Bezeq Group Quarterly Financial Performance ⁽¹⁾

Revenue growth combined with substantial YoY increases in EBITDA, net profit and free cash flow

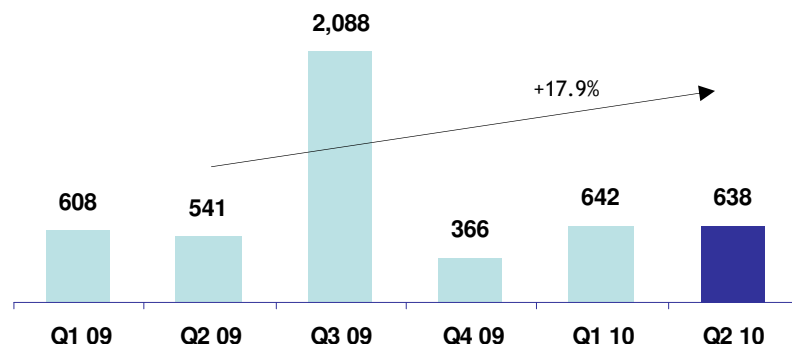
Group Revenue
NIS MM



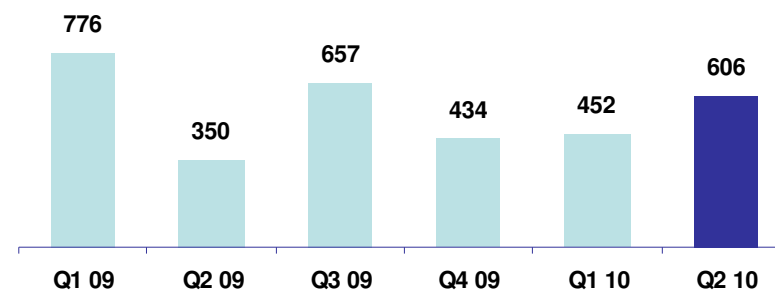
Group EBITDA ⁽²⁾
NIS MM



Group Net Profit (attributable to shareholders) ⁽³⁾
NIS MM



Group Free Cash Flow ⁽⁴⁾
NIS MM



1. Pro-forma excluding yes' financial results but including accounting of yes' loss according to the equity method
2. Adjusted for early-retirement-related provisions (NIS 267MM in Q4-09), and including costs related to employee options
3. Q3-09 net profit to shareholders included 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 + dividends received



Bezeq Group Financial Outlook 2010

- ‡ Bezeq reiterates full-year financial outlook as provided in early March 2010

- ‡ The Bezeq Group projects full-year 2010 revenues, net profit from continuing operations and EBITDA to be in line or slightly higher than 2009 levels
 - ‡ Outlook is underpinned by the strength of the Bezeq Group's comprehensive consumer and business communications offerings and a strict focus on improving operating efficiencies

- ‡ The Bezeq Group expects gross capital expenditures in 2010 to be close to the 2009 level, reflecting:
 - ‡ Continuing investment in Bezeq's Next Generation Network (NGN), expanding its coverage to reach approximately 50% of Israeli households by the end of 2010

 - ‡ Slightly lower capital expenditures at Pelephone, which successfully completed and launched its High Speed GSM (HSPA) network in early 2009



Regulatory Environment

Regulation remains a significant risk factor

Fixed-Line

- MoC-appointed committee evaluates Bezeq's tariff structure and wholesale tariff regime for fixed-line operators; recommendations are due in April 2011
- MoC allows Bezeq and subsidiaries to offer bundled services, albeit without cross-subsidies when the bundle is being offered by Bezeq

Mobile

- Regulators promote increased competition, including introduction of MVNOs and a 5th MNO
 - 3 MVNO licenses already granted, commercial launch expected in mid-2011
 - MoC's final decision on significant MTR reduction expected soon
 - Changes to contract cancellation fees are likely to limit operators' ability to reduce churn

- The government proposed to increase the royalty rate for Fixed-Line, Mobile and Pay-TV operators from 1% in 2010 to 2% in 2011 and to 2.5% in 2012-2013

ISP, International long distance

- MoC promotes the entrance of new competitors into ISP and ILD segments

Pay-TV

- Expected introduction of 'narrow package' may have negative implications for pay-TV operators, which in turn may be granted permission to offer advertising in the future



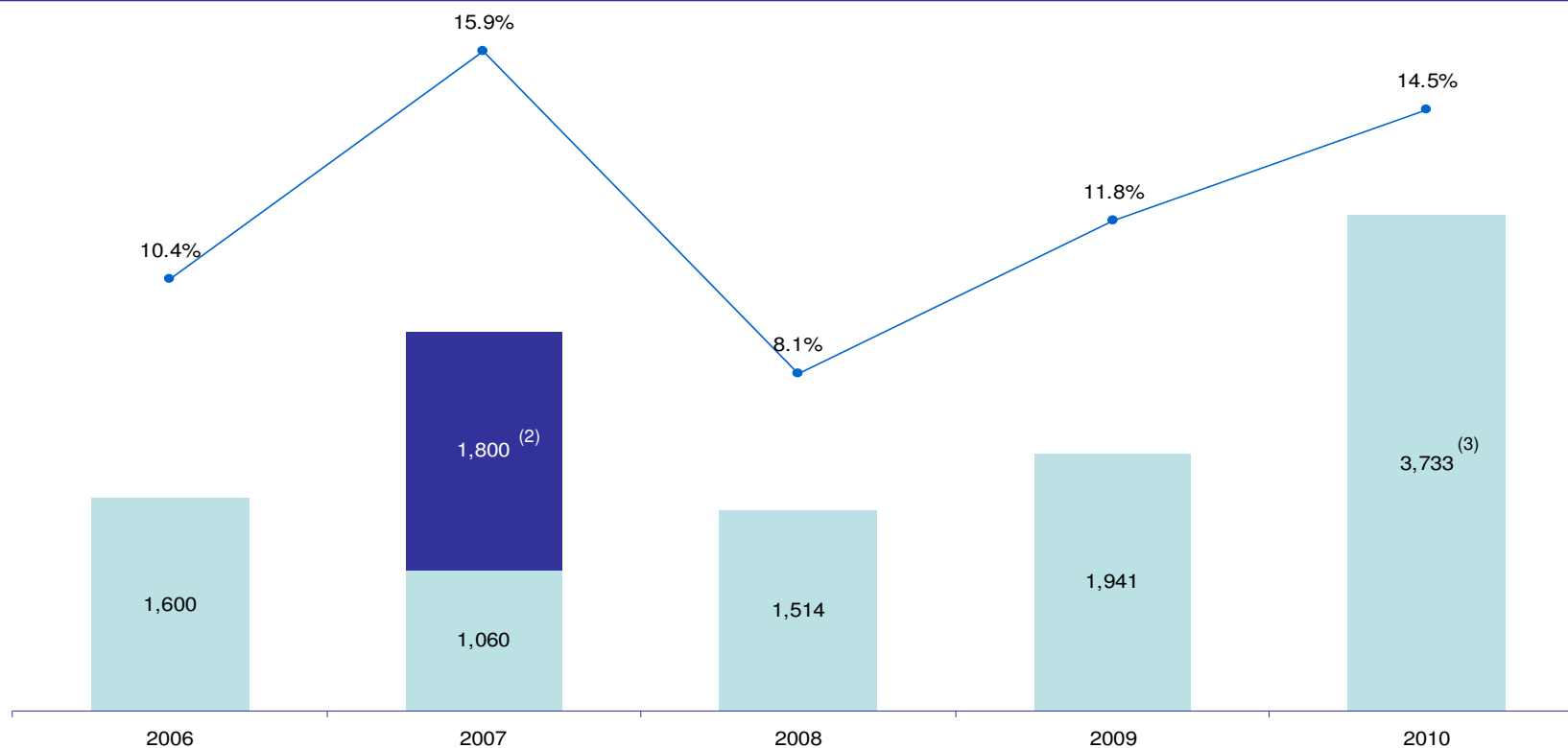
Shareholder Remuneration

Attractive shareholder remuneration while maintaining full financial flexibility

Dividend Distributions

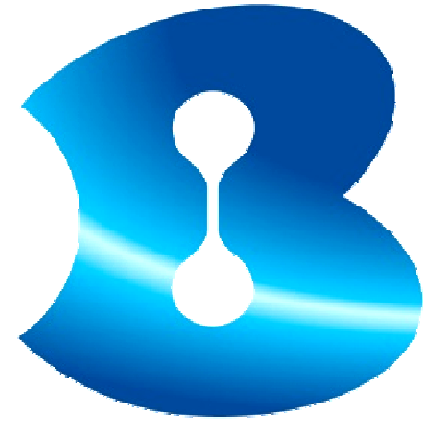
NIS MM

— 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 dividend declared Aug 2, 2010 representing H1-10 earnings.



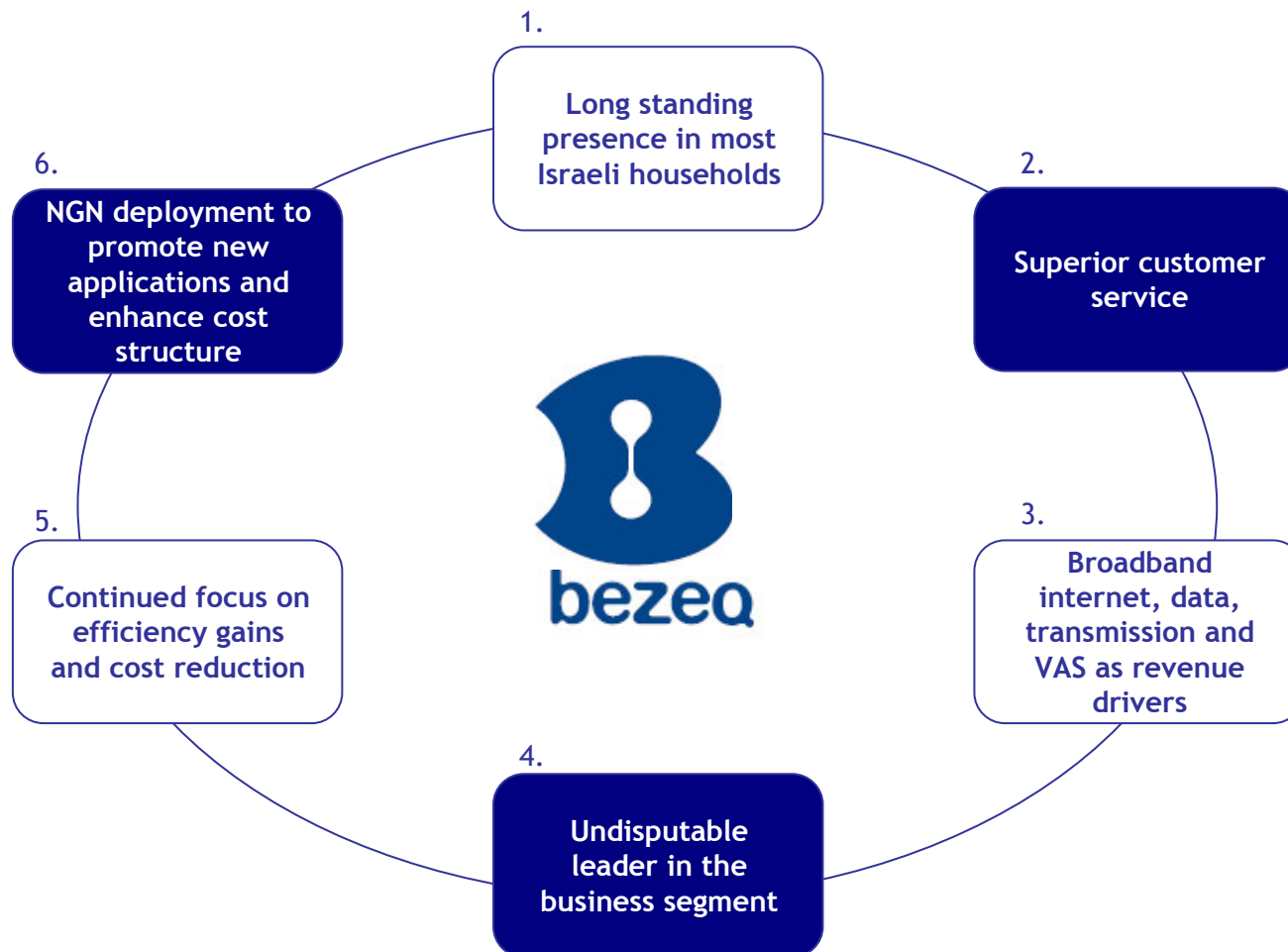
Bezeq

Fixed-Line



Bezeq Fixed-Line Overview

The leading fixed-line services operator in Israel





Bezeq Fixed-Line Q2 2010 Highlights

- ⌚ Solid profits expansion as growth in broadband Internet and data offsets decline in voice revenue
 - ⌚ EBITDA grew 5.5% YoY to NIS 674MM, yielding a best-in-class EBITDA margin of 51.6%
 - ⌚ Revenues declined only 0.8% YoY, despite continued erosion in telephony market share
 - ⌚ Improved profitability driven by 9% YoY decline in total operating costs, as:
 - ⌚ Salary expenses decreased 5.3% YoY, due to capitalization of network projects and update of provision
 - ⌚ Operating and general expenses decreased 3.7% YoY as implementation of efficiency measures continues
 - ⌚ D&A declined 16.6% YoY, due to full depreciation of legacy equipment and increase in copper value

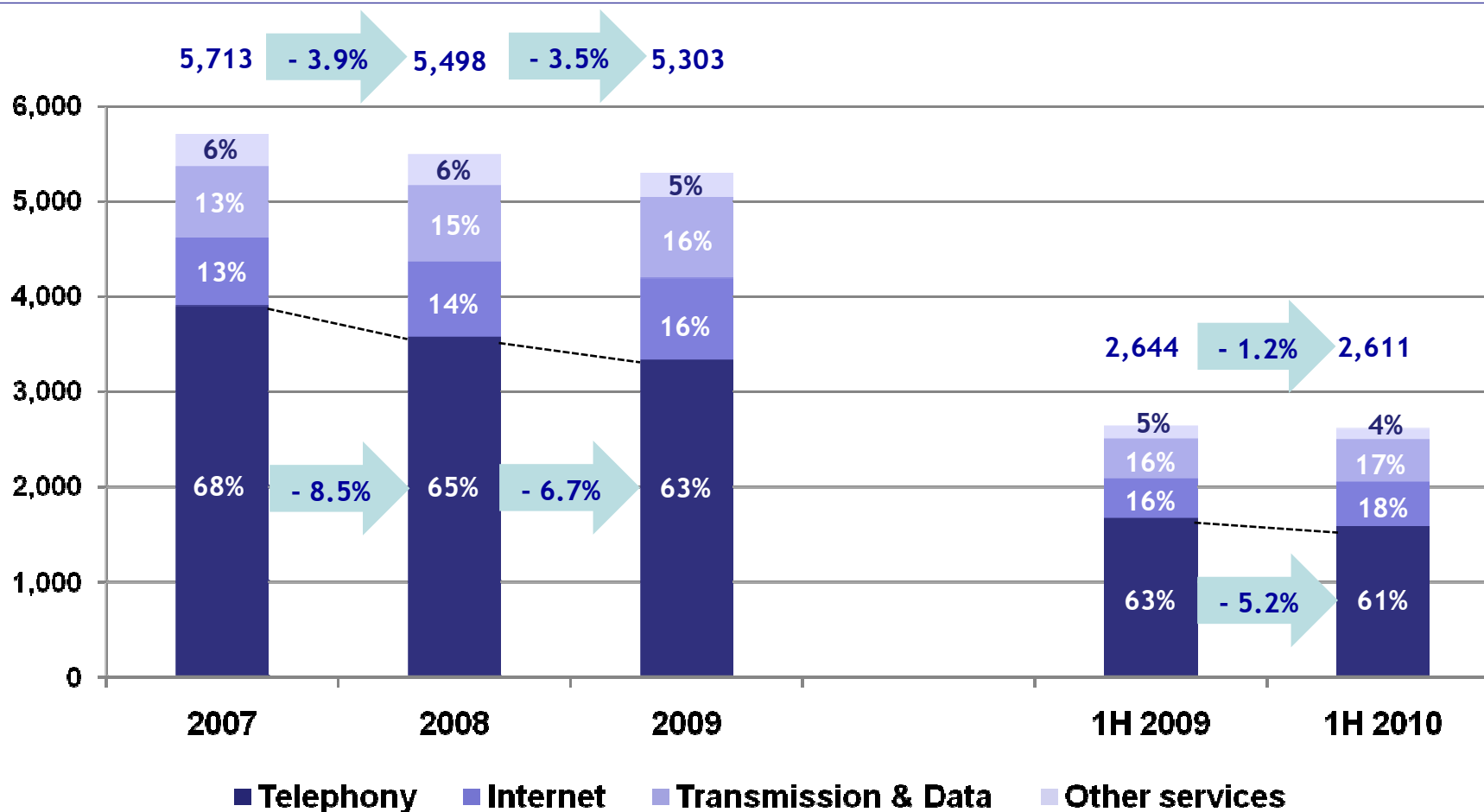
- ⌚ Deployment of NGN on track, potential for increased operational leverage
 - ⌚ NGN already connects over 30% of Israeli households
 - ⌚ Over 25% of Bezeq's NGN-enabled ADSL customers have joined NGN tariff plans of at least 10 Mbps
 - ⌚ The average broadband Internet bandwidth increased 42% YoY to 3.4 Mbps
 - ⌚ 23% of ADSL subscribers benefit from at least 5 Mbps, as compared to only 9% a year ago
 - ⌚ Internet ARPU increased 8.7% YoY to NIS 75, led by bandwidth upgrades and value-added services



Bezeq Fixed-Line Revenue Analysis

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

Fixed Line Revenue
NIS MM

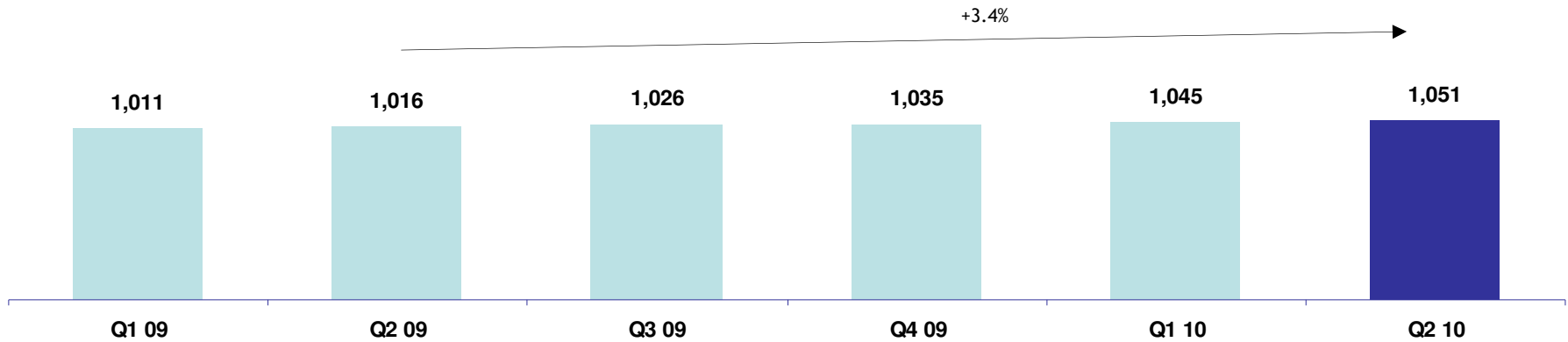




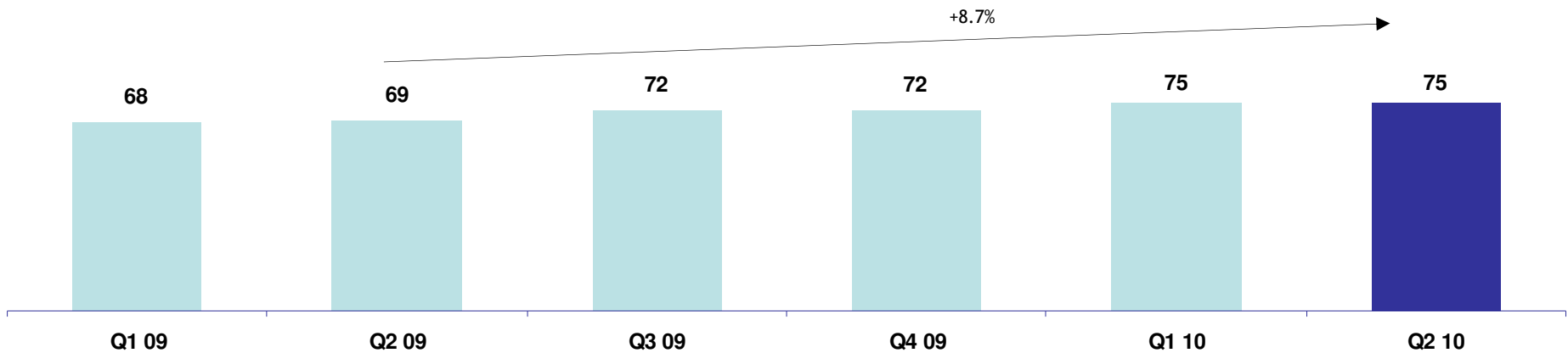
Broadband KPIs

NGN drives bandwidth upgrades resulting in sustained higher levels of broadband Internet ARPU

ADSL Lines
'000



Broadband Internet ARPU
NIS/Month

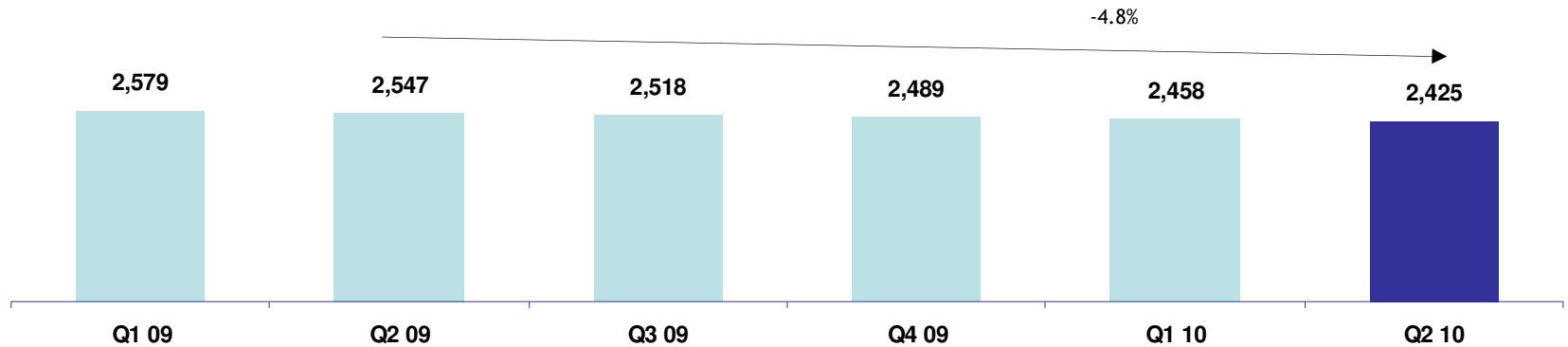




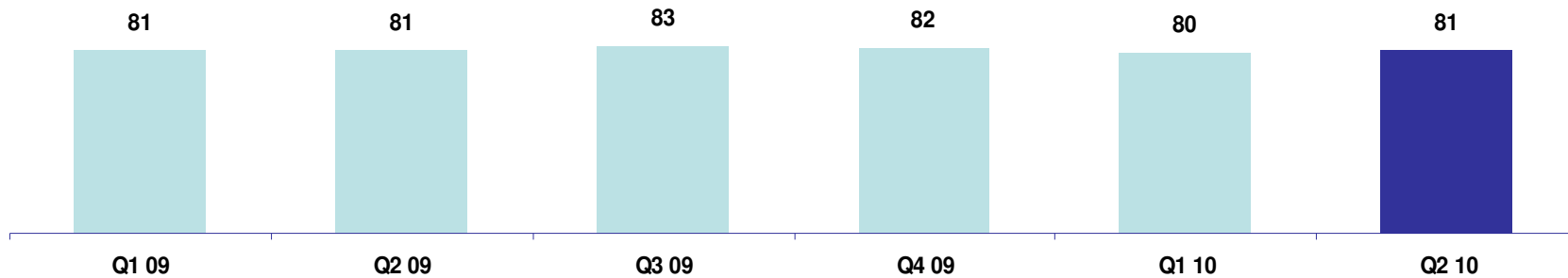
Domestic Telephony KPIs

Continued market share erosion but stable ARPL

Access Lines
'000



ARPL (1)
NIS/Month



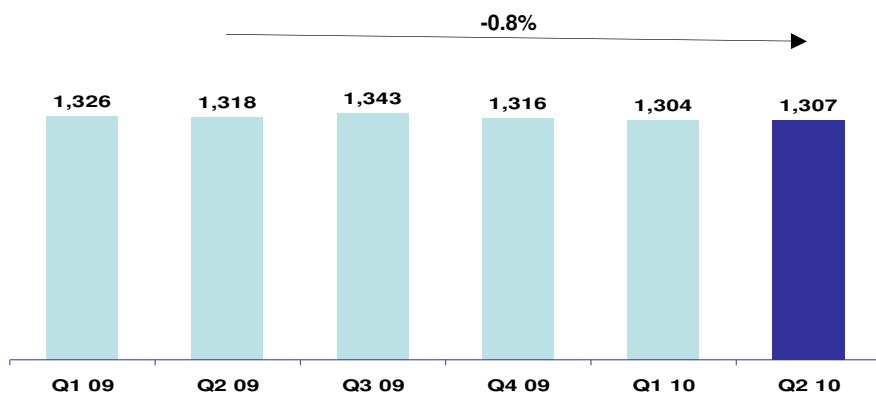
1. Not including revenues from data communications and transmission services, internet services, services to communications providers, and contract and other services.



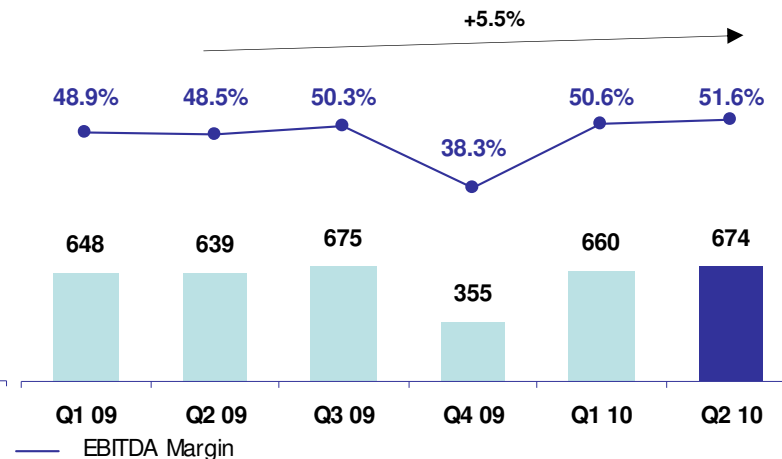
Bezeq Fixed-Line Financial Performance

Outstanding EBITDA margin combined with strong FCF despite high capex levels

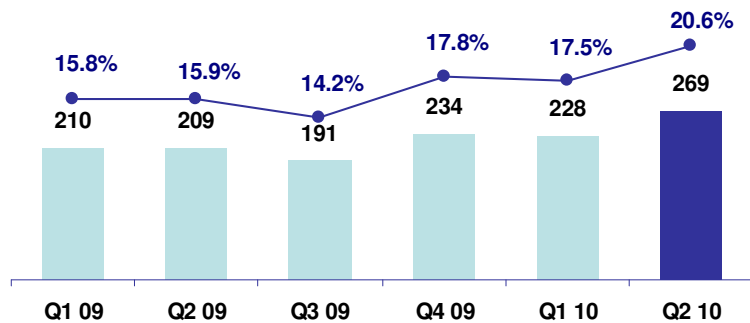
Fixed-Line Revenue
NIS MM



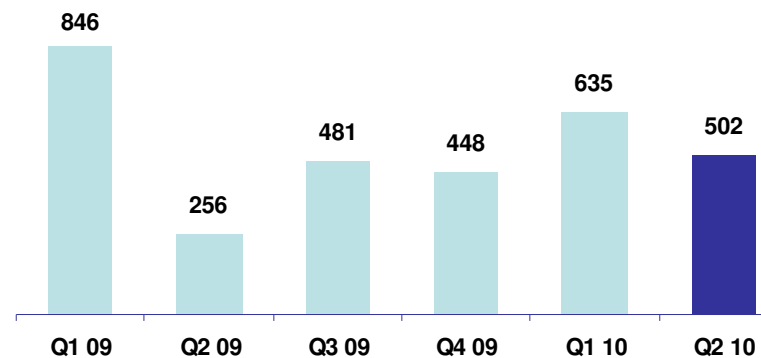
Fixed-Line EBITDA
NIS MM



Fixed-Line Gross Capex
NIS MM



Fixed-Line Free Cash Flow (1)
NIS MM



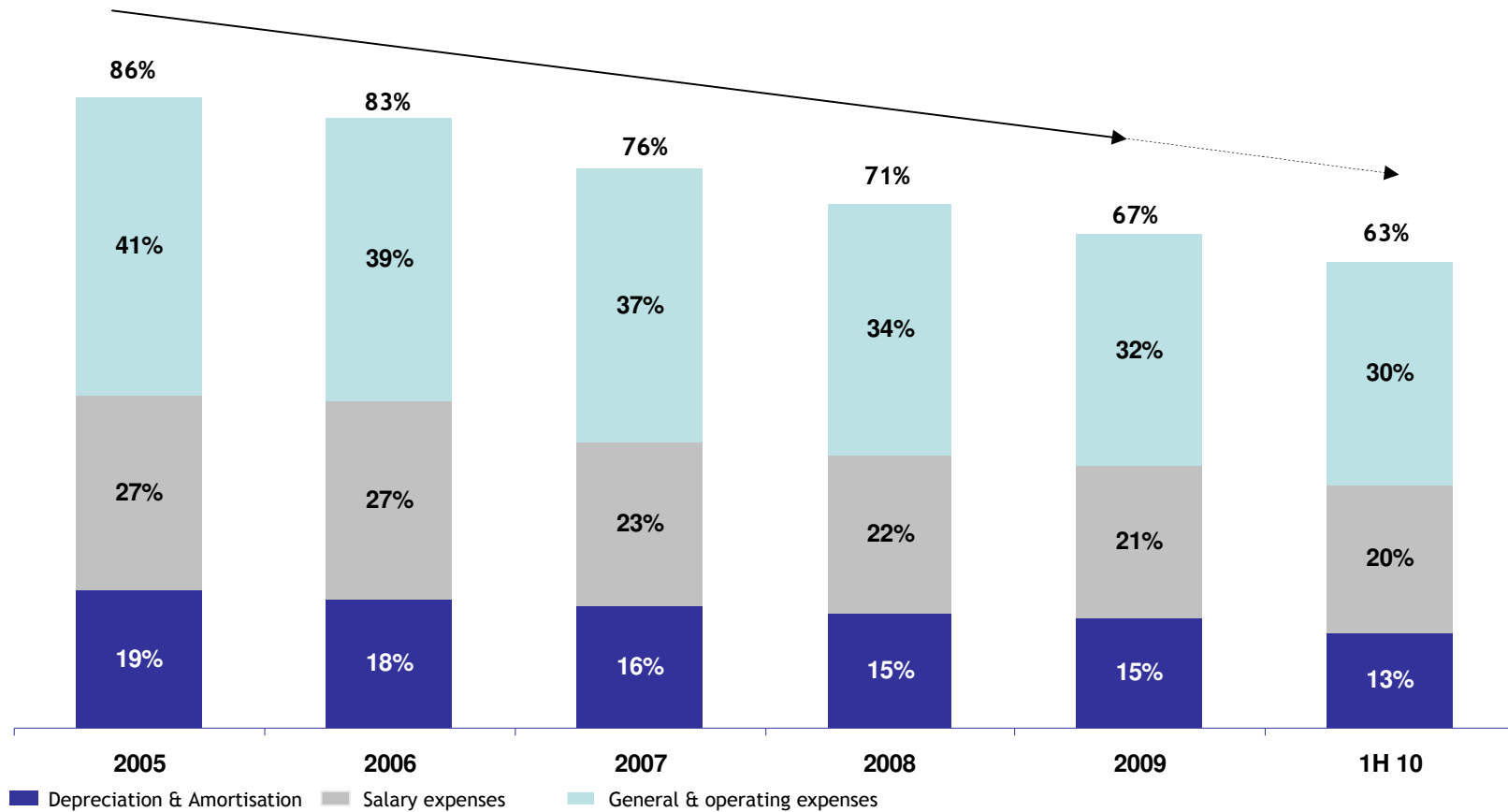
— Gross capex as % of sales
1. Free cash flow defined as cash flow from operations - net capex + dividends received



Bezeq Fixed-Line Cost Structure Development

Continued reduction of the cost base supports high profitability levels

Cost Structure ⁽¹⁾
% of revenues



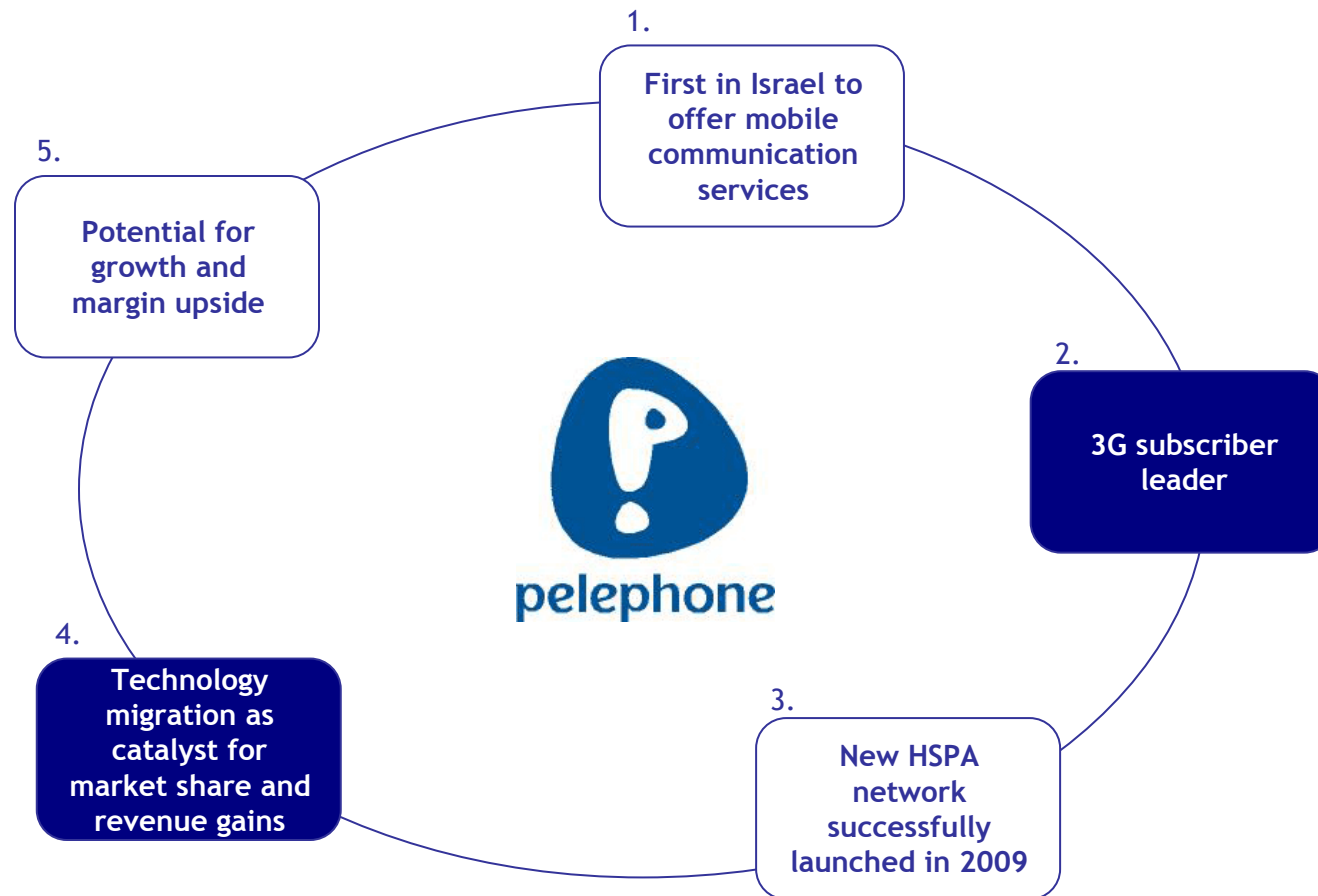
1. Excluding capital gain/(losses), early retirement-related provisions and other expenses/(income)



pelephone

Pelephone Overview

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



Pelephone Q2 2010 Highlights

- ⌚ Record revenues, EBITDA and net profit as Pelephone capitalizes on HSPA network potential
 - ⌚ Strong performance gains led by service revenue growth of 8.6% YoY
 - ⌚ Total revenues reached NIS 1.43bn, up 6.2% YoY; revenues from HS sales declined 2.4% YoY
 - ⌚ EBITDA increased 8.3% YoY to NIS 511MM, for a 35.7% EBITDA margin (35.1% in Q2-09)
 - ⌚ Net profit reached NIS 267MM, up 14.6% YoY, for an 18.7% net profit margin

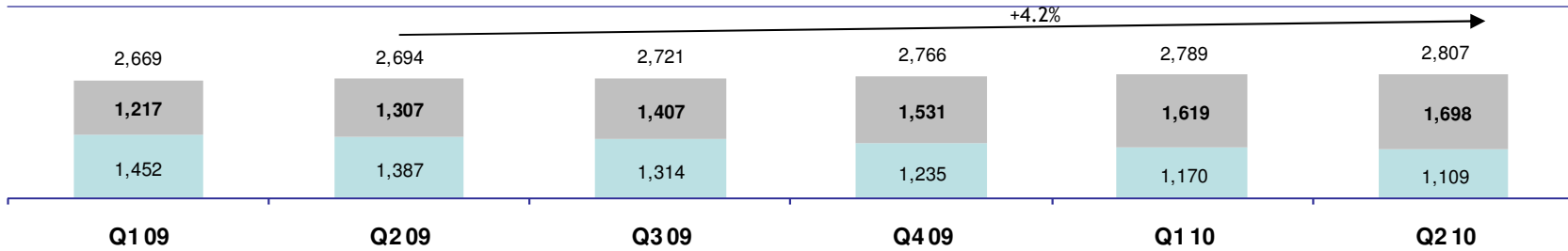
- ⌚ HSPA network allows for rapid growth of non-voice cellular services
 - ⌚ HSPA network subscribers reached 1.01 million on June 30, 2010 - approx. 36% of total Pelephone's subscribers
 - ⌚ Revenues from data, content and VAS reached a record 23.0% of cellular service revenues
 - ⌚ HSPA subscriber usage profile is reflected in ARPU and MOU gains:
 - ⌚ ARPU reached NIS 136 vs. NIS 131 in Q2-09
 - ⌚ MOU increased to 348 minutes, up 5.8% YoY

- ⌚ Solid cash flow performance driven by increased profitability and positive working capital changes

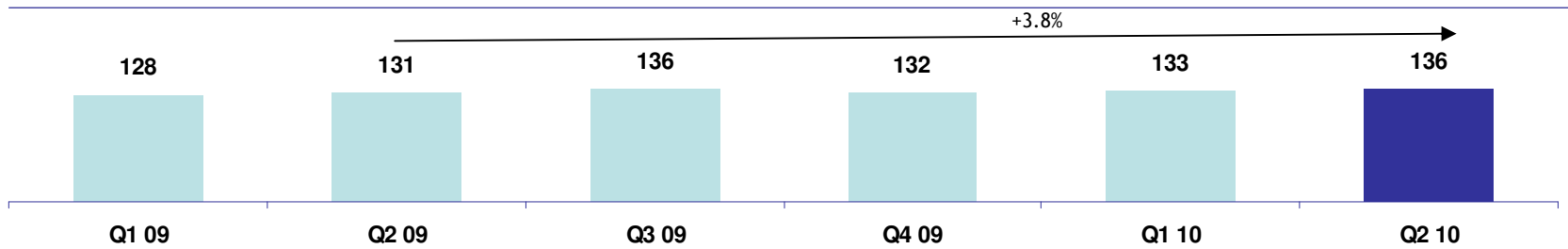
Pelephone KPIs

HSPA network success delivers improved key usage metrics

Subscribers
'000

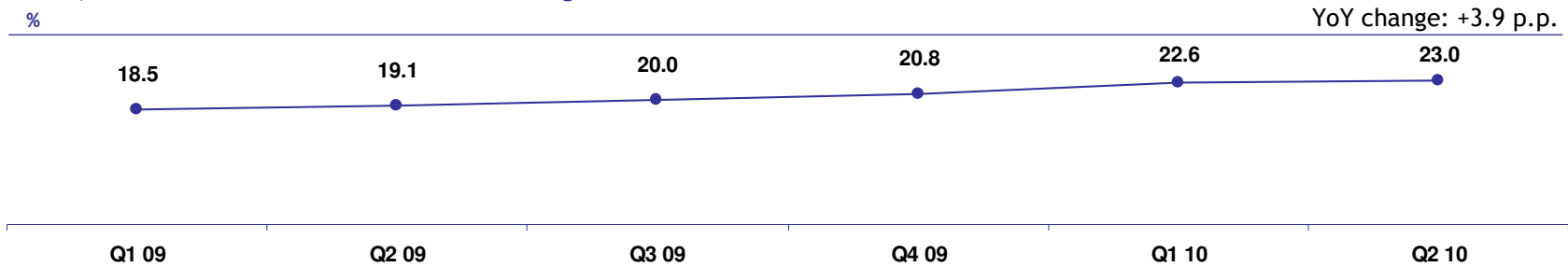


ARPU
NIS/Month



Data, Content and VAS Revenue as a Percentage of Cellular Service Revenue ⁽¹⁾

%



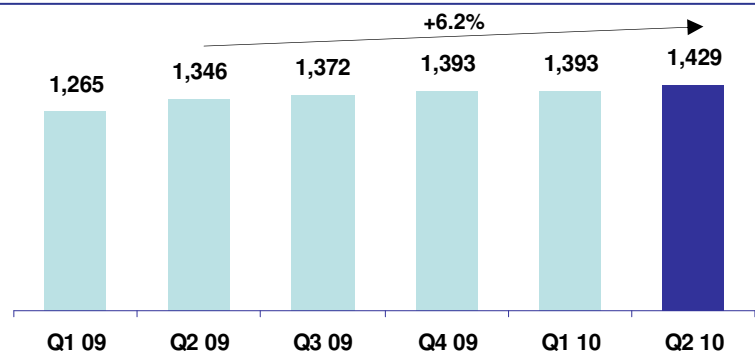
1. Includes telephony and data services but excludes sale of equipments and equipment services



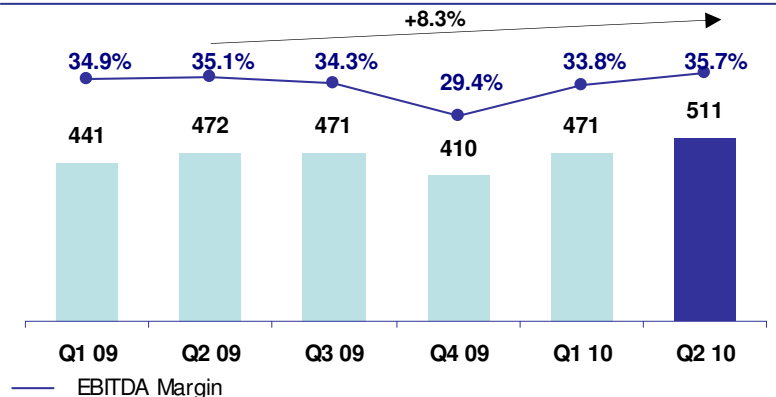
Pelephone Financial Performance

Successful implementation of HSPA network strategy translates into solid financial performance gains

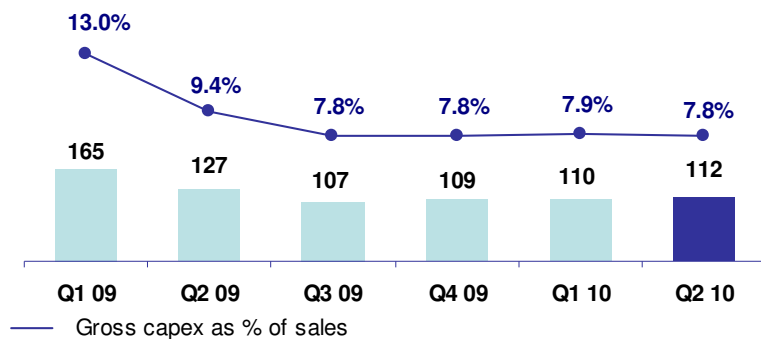
Pelephone Revenue
NIS MM



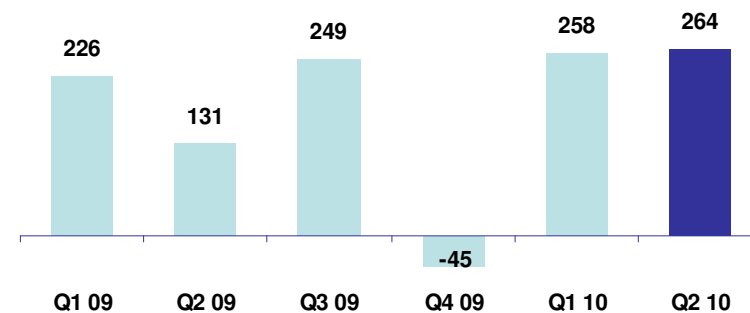
Pelephone EBITDA
NIS MM



Pelephone Gross Capex
NIS MM



Pelephone Free Cash Flow
NIS MM





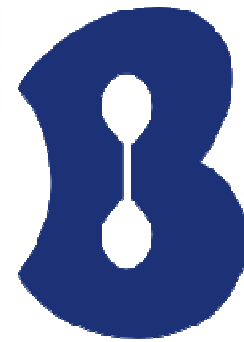
Israeli Mobile Operators' Comparative Performance

Pelephone reduces ARPU & EBITDA margin gap with competitors

1Q 2010 vs. 1Q 2009	Pelephone	Cellcom	Partner
Total revenues	+10.1%	+1.2%	+12.4%
Service revenues	+8.5%	+3.0%	+4.3%
EBITDA	+6.8%	+1.8%	+12.1%
EBITDA Margin ¹	+1.1 p.p.	+0.2 p.p.	-0.1 p.p.
ARPU	+3.9%	-0.6%	-1.4%
ARPU (NIS)	+5.0	+0.8	-2.0

Source: Company filings

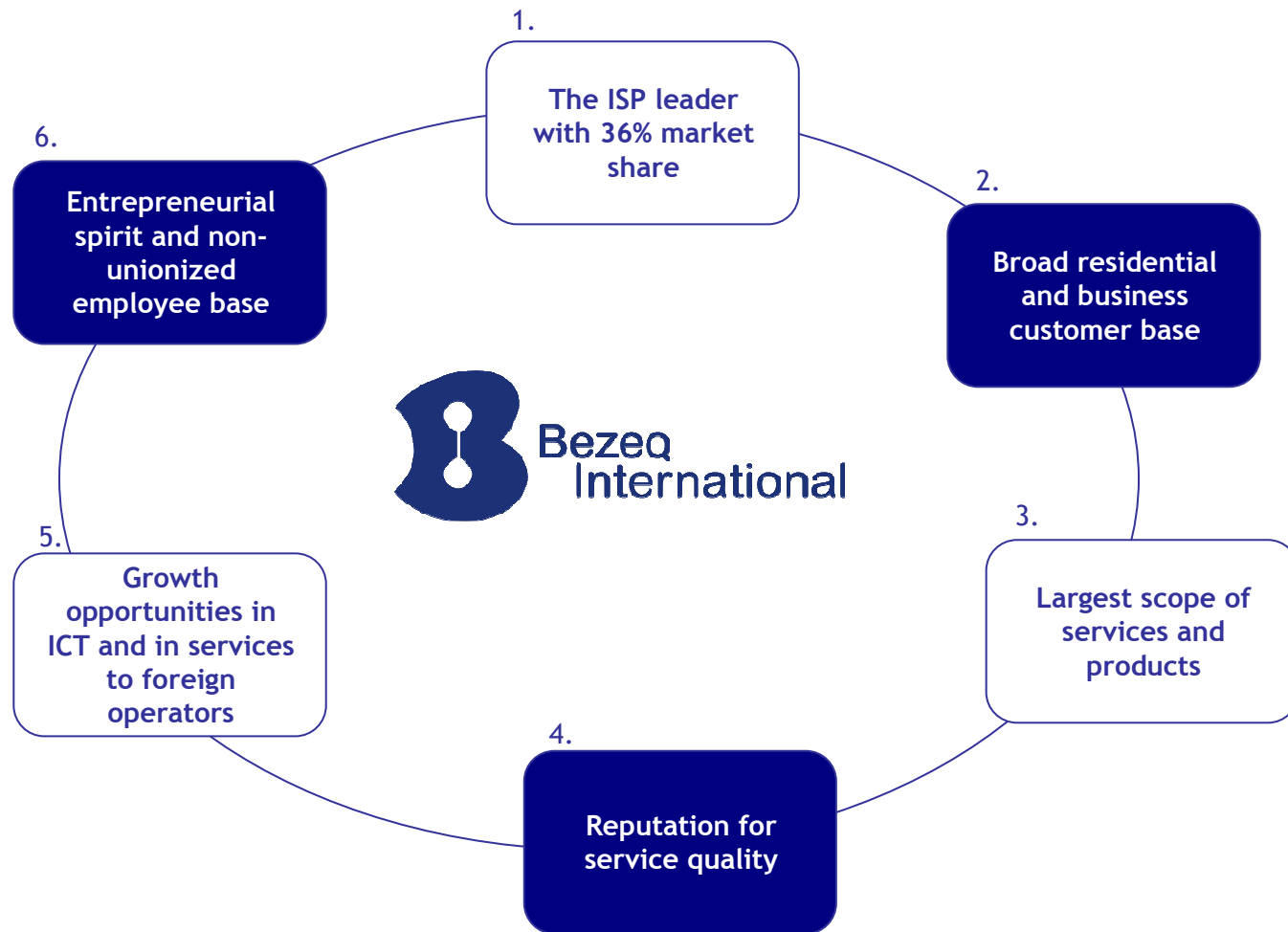
1. Year-over-year change presented in percentage points



Bezeq
International

Bezeq International Overview

A leader in the ISP and IDD markets in Israel with growing operations in the ICT market



- ⌚ Growth in the company's core businesses combined with one-time profit from Walla! consolidation
 - ⌚ Q2-10 results benefited from a NIS 57MM one-time gain from the consolidation of Walla! as of April 25, 2010
 - ⌚ Excluding Walla! contribution to operating results:
 - ⌚ Rapid growth in ICT and continued leadership in ISP resulted in 4.7% YoY revenue growth to NIS 342MM
 - ⌚ Lower revenues from ILD and PBX activities
 - ⌚ EBITDA grew to NIS 90MM for an industry-high 26.3% EBITDA margin (vs 27.0% in Q2-09)
 - ⌚ Net profit declined to NIS 51MM from NIS 56MM due to lower operating costs in Q2-09 and higher financing expenses in Q2-10

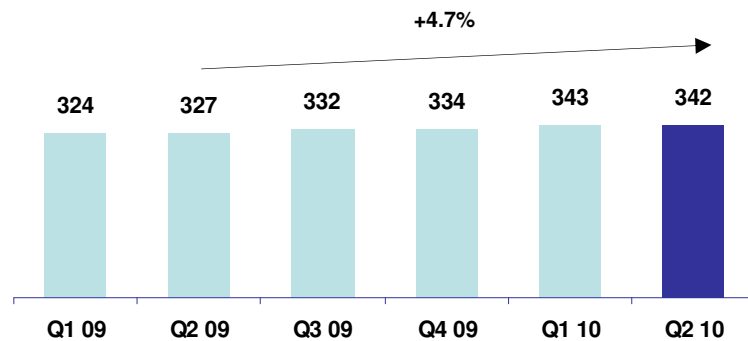
- ⌚ Focus on core business segments provides resiliency in a highly competitive market
 - ⌚ Sustained, leading market share in ISP segment (~36%)
 - ⌚ Bezeq International is unique among competitors in its successful foray into adjacent enterprise market segment with value-added ICT offering

Bezeq International Financial Performance

Solid revenue and EBITDA growth combined with lower FCF

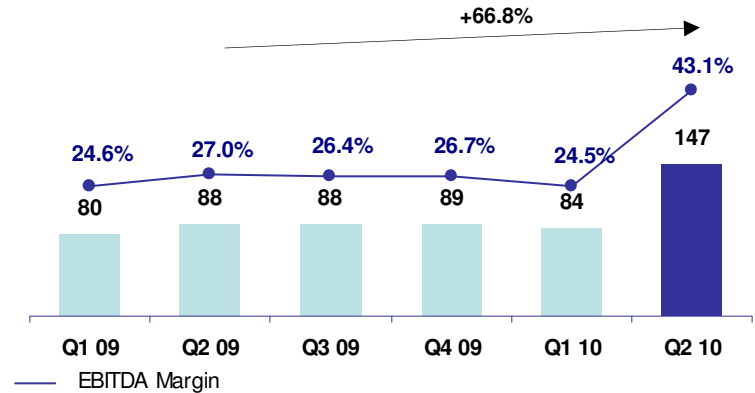
Bezeq International Revenue ⁽¹⁾

NIS MM



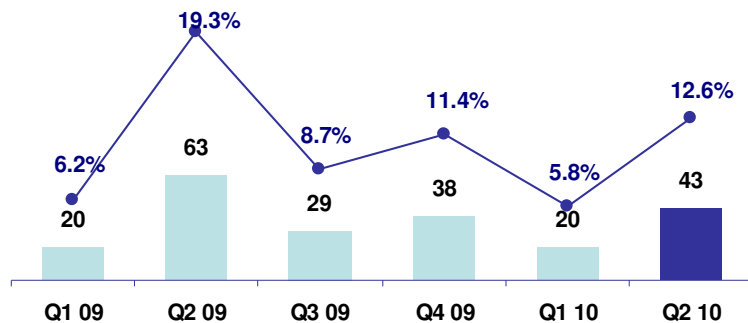
Bezeq International EBITDA ⁽¹⁾

NIS MM



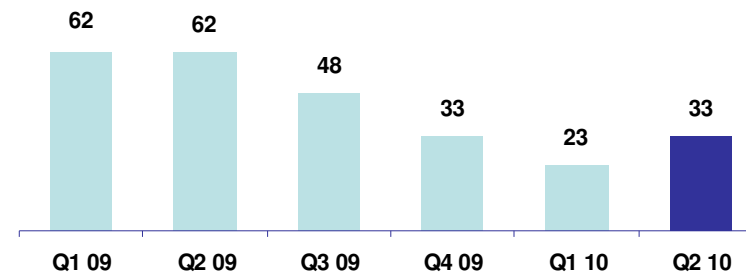
Bezeq International Gross Capex ⁽¹⁾

NIS MM



Bezeq International Free Cash Flow ^{(1) (2)}

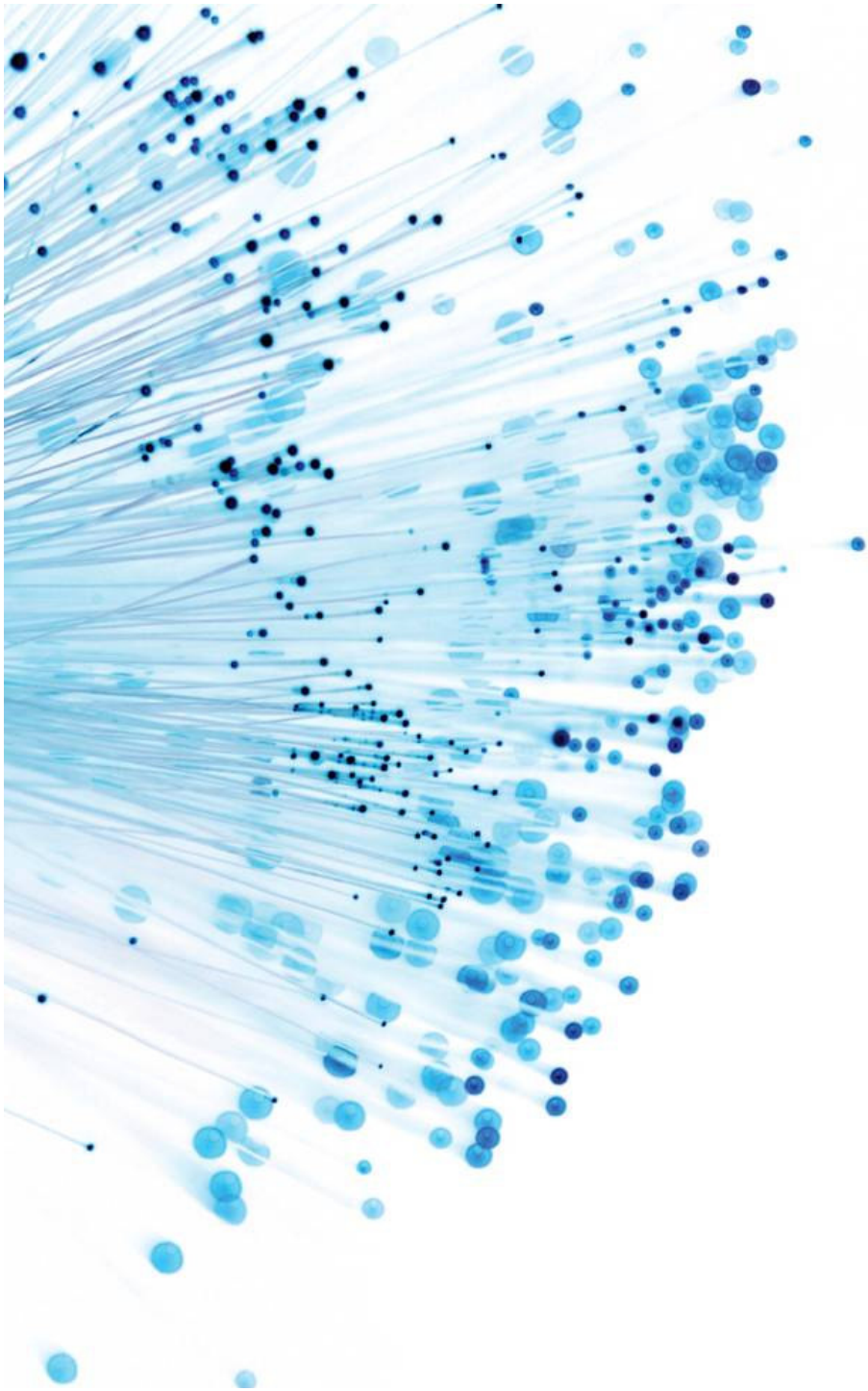
NIS MM



— Gross capex as % of sales

1. Q2-10 excludes Walla's financials, but includes a one-time profit from the consolidation of Walla!

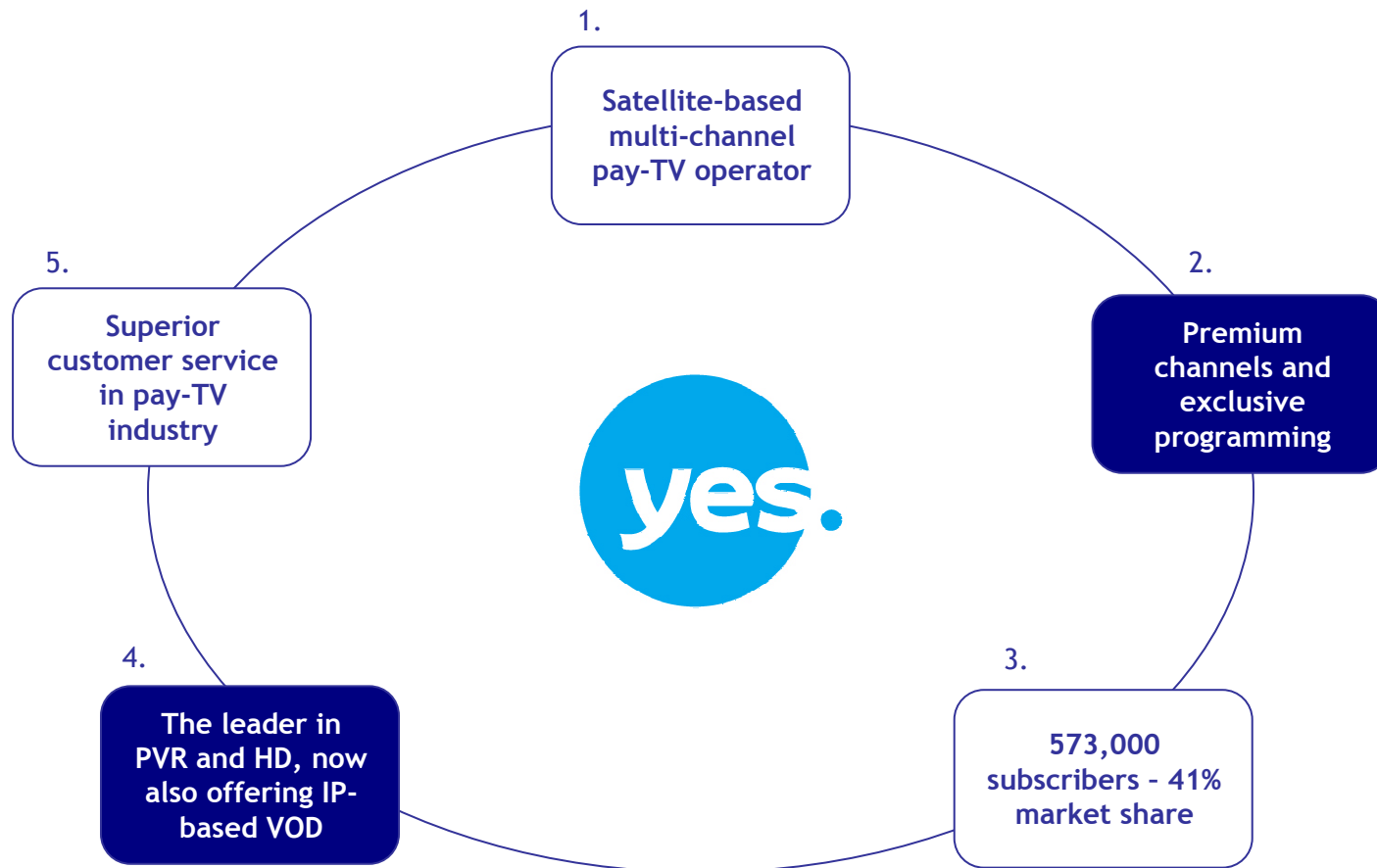
2. Free cash flow defined as cash flow from operations - net capex + dividends received





yes Overview

The premium pay-TV operator in Israel





yes Q2 2010 Highlights

- ⌘ Outstanding operating performance paled by provision for retroactive royalties to ACUM
 - ⌘ Revenues reached NIS 396MM, up 5.3% YoY, on 2.0% higher subscriber levels
 - ⌘ Including the ACUM provision:
 - ⌘ EBITDA declined to NIS 75MM vs NIS 115MM in Q2-09
 - ⌘ Net loss increased to NIS 143MM vs net loss of NIS 95MM in Q2-09

- ⌘ yes' superior market perception is key in a highly penetrated market
 - ⌘ Increased sales of advanced services such as yes Max and yes MaxHD
 - ⌘ Opportunistic sales of content such as proprietary TV series contribute to top and bottom lines
 - ⌘ New IP-based VOD service (yes MaxTOTAL) improves yes' competitive offering

- ⌘ Continued, solid cash flow generation

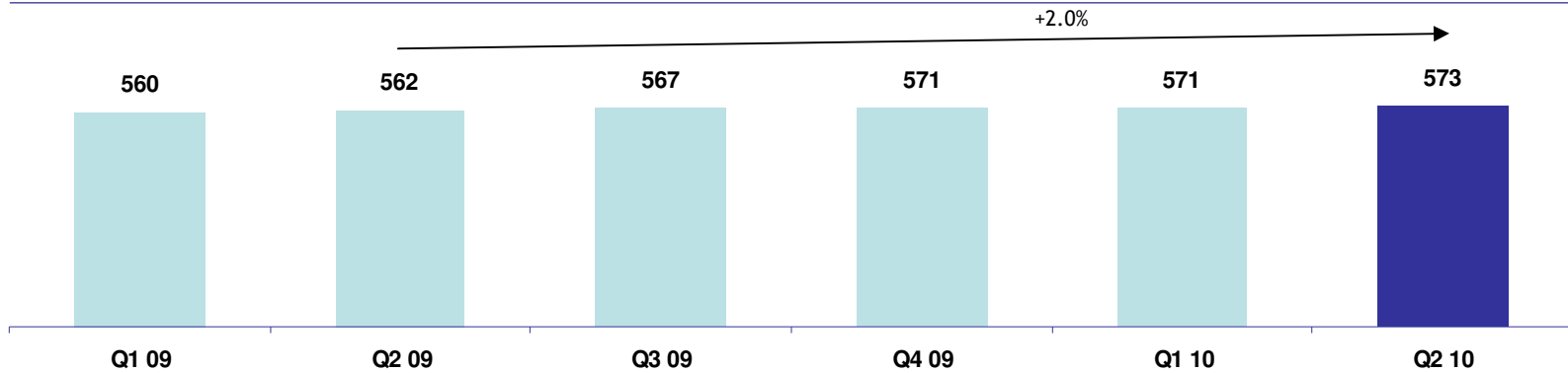


yes KPIs

Stable metrics reflect yes' resilience despite contracting pay-TV market

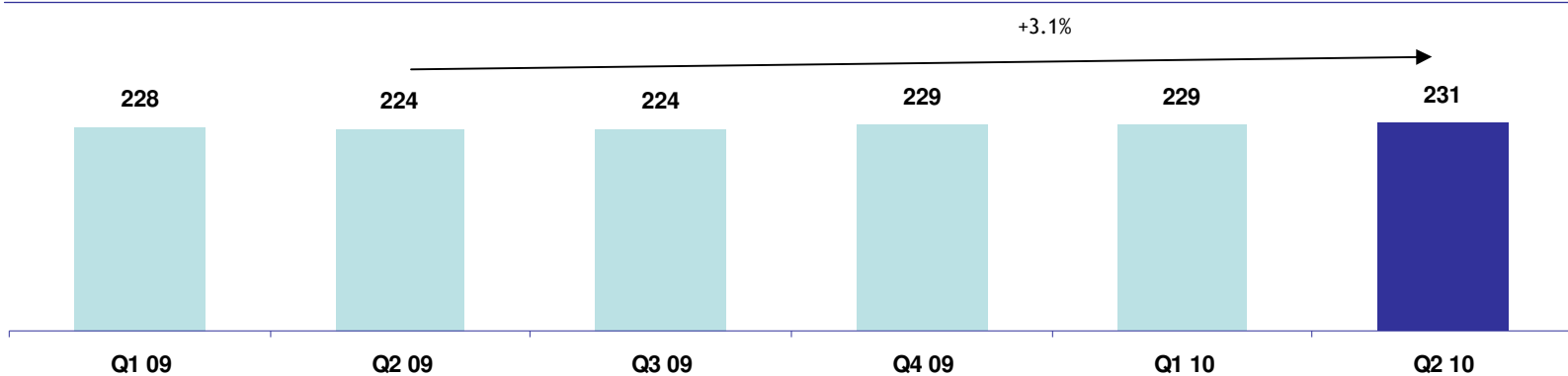
Subscribers

'000, end of period



ARPU

NIS/Month, avg per quarter

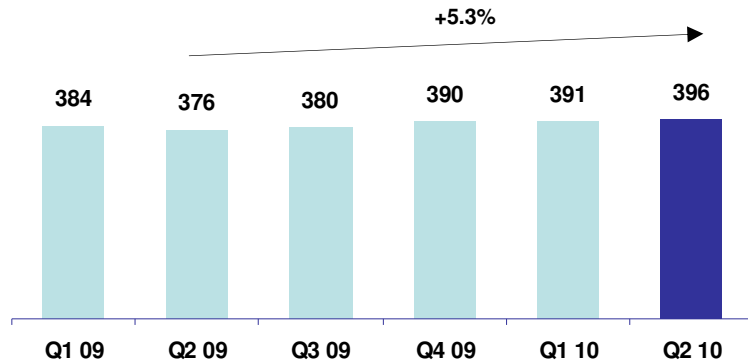




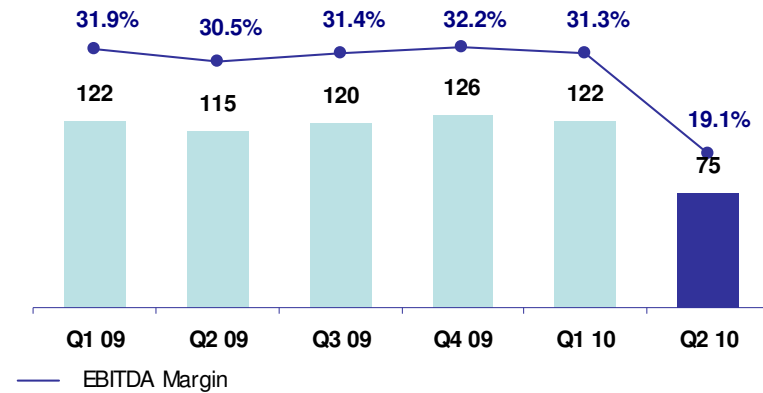
yes Financial Performance

Solid free cash flow generation stands out

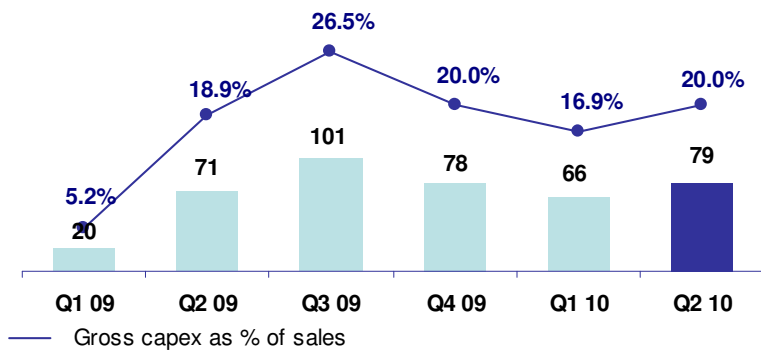
yes Revenue
NIS MM



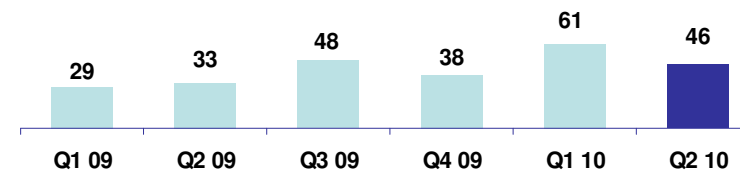
yes EBITDA
NIS MM

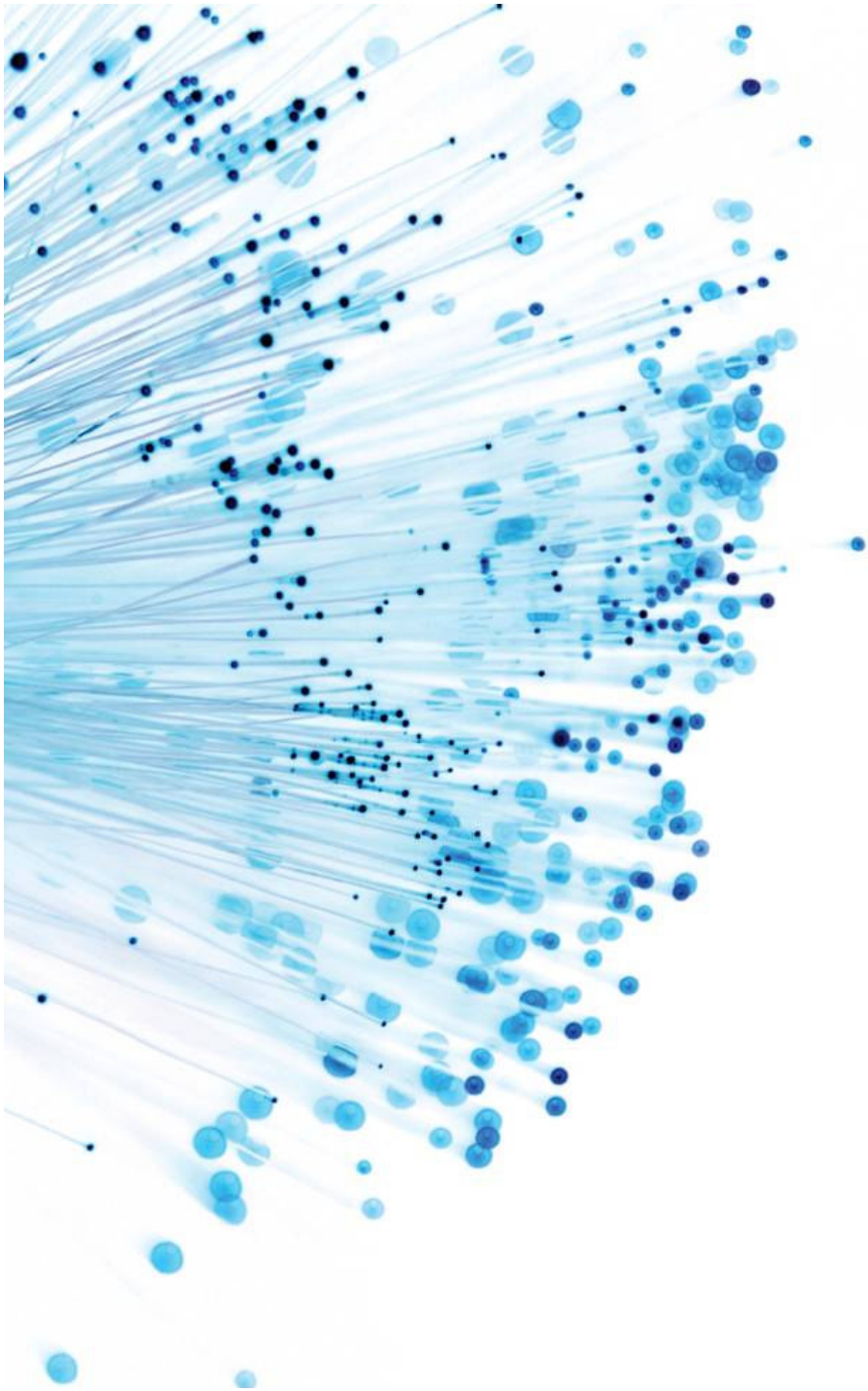


yes Gross Capex
NIS MM

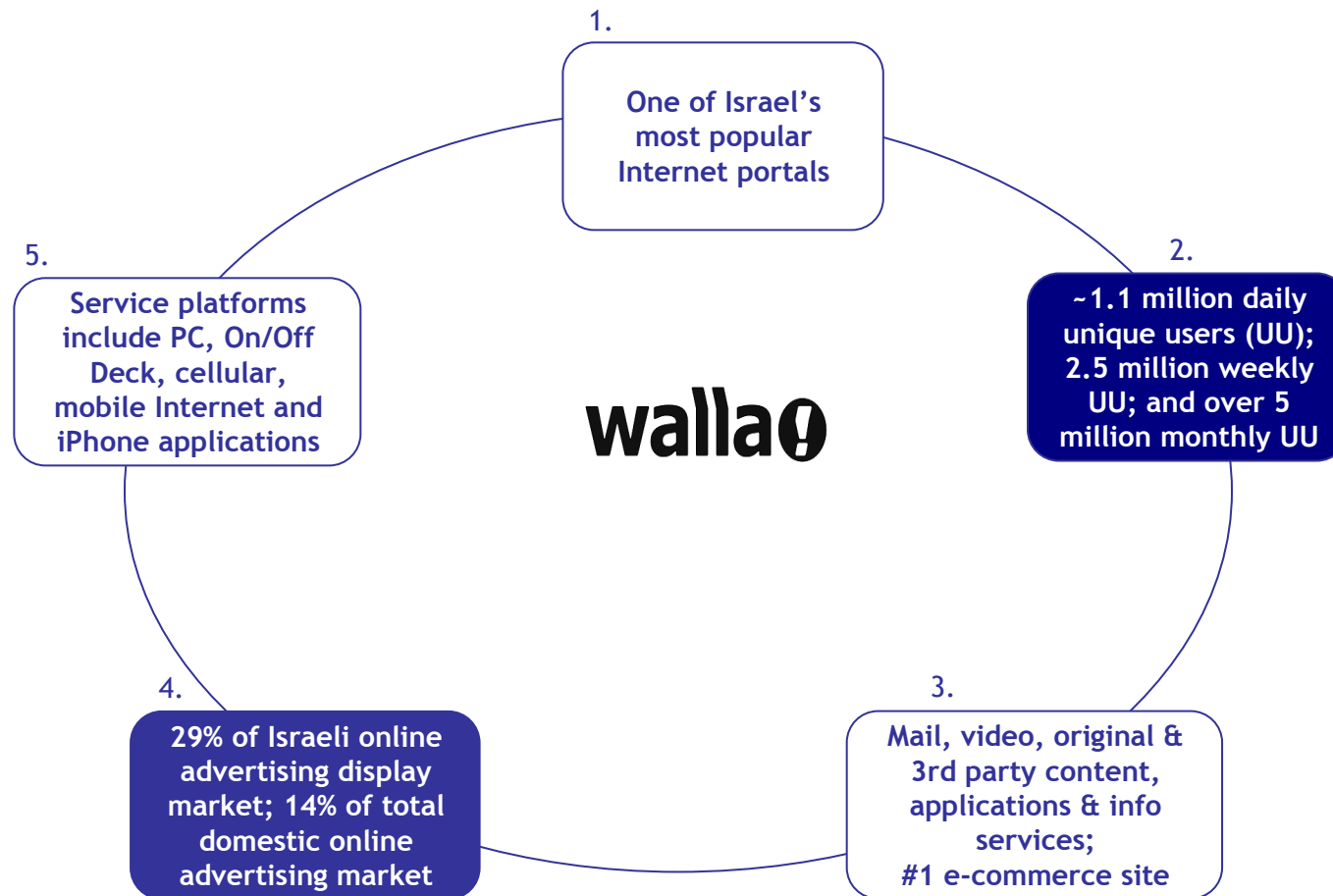


yes Free Cash Flow
NIS MM





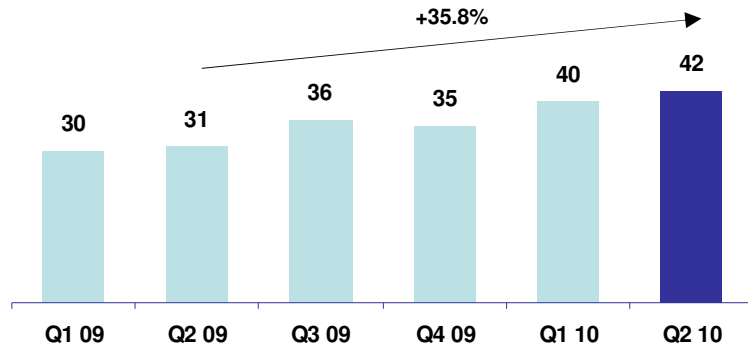
walla!



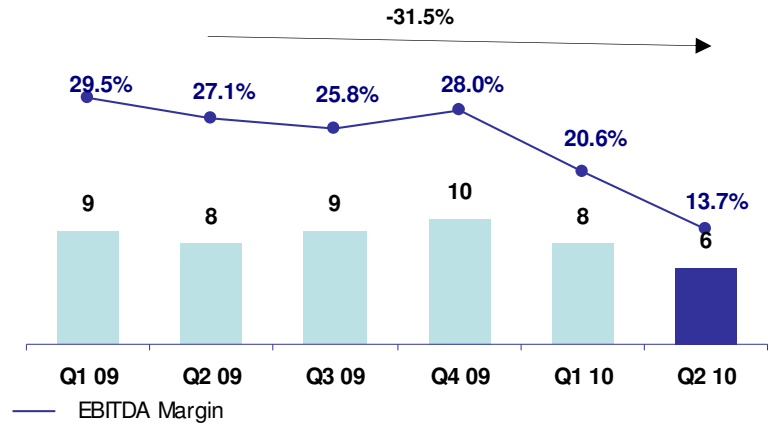


Walla! Financial Performance

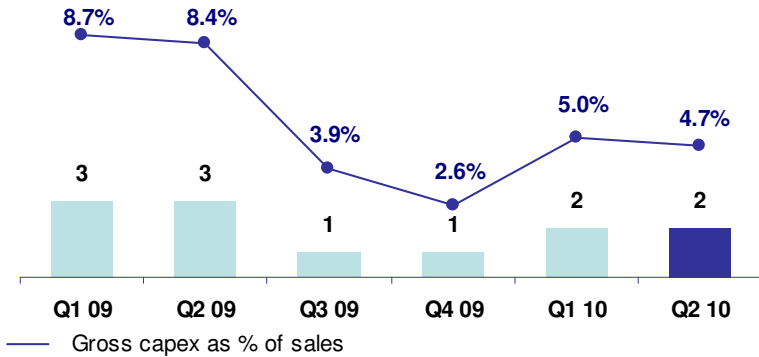
Walla! Revenue
NIS MM



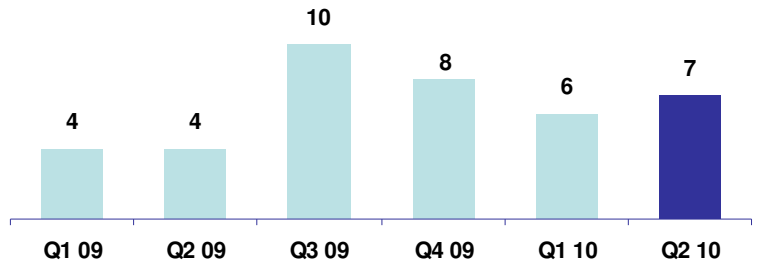
Walla! EBITDA
NIS MM

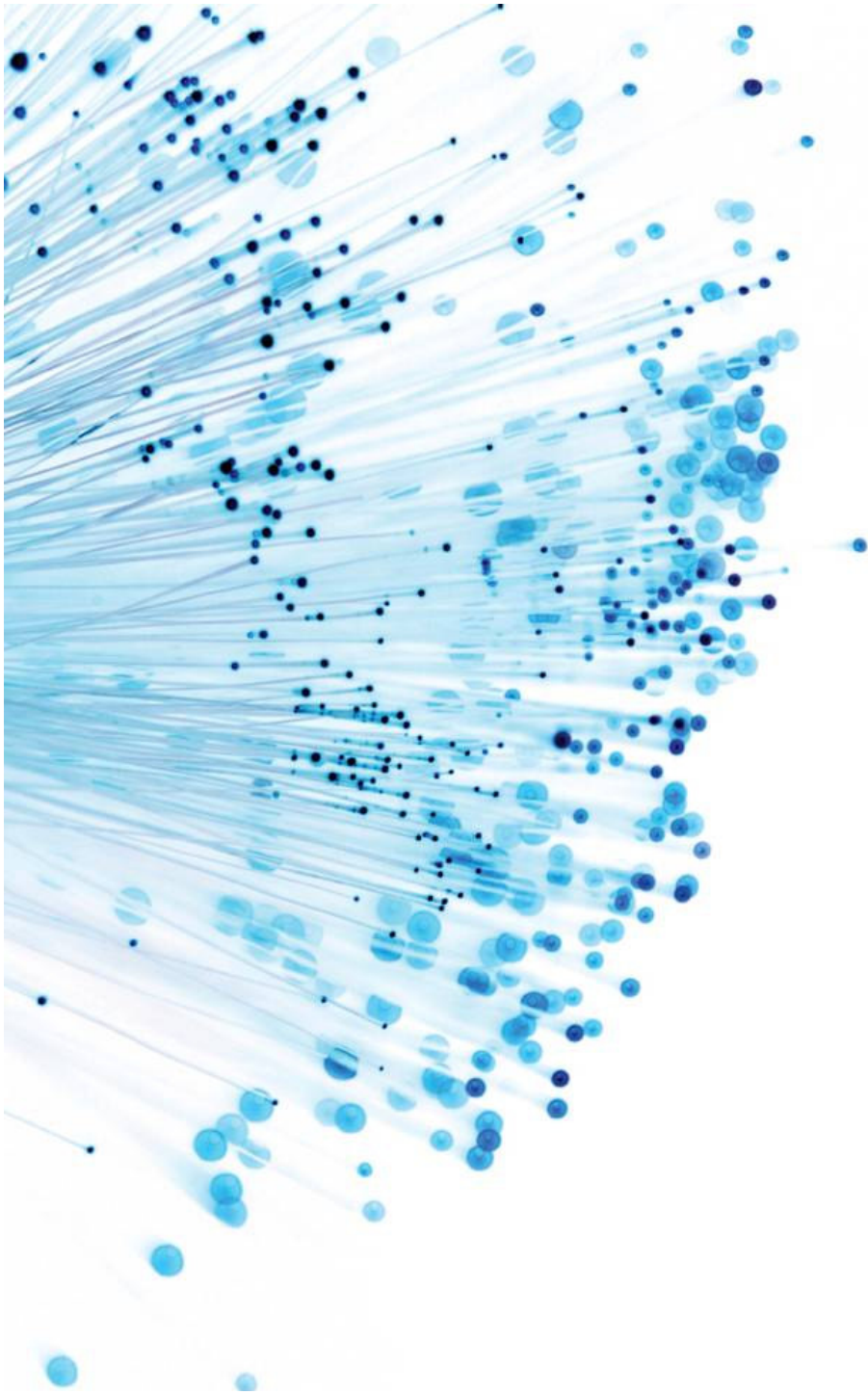


Walla! Gross Capex
NIS MM



Walla! Free Cash Flow
NIS MM





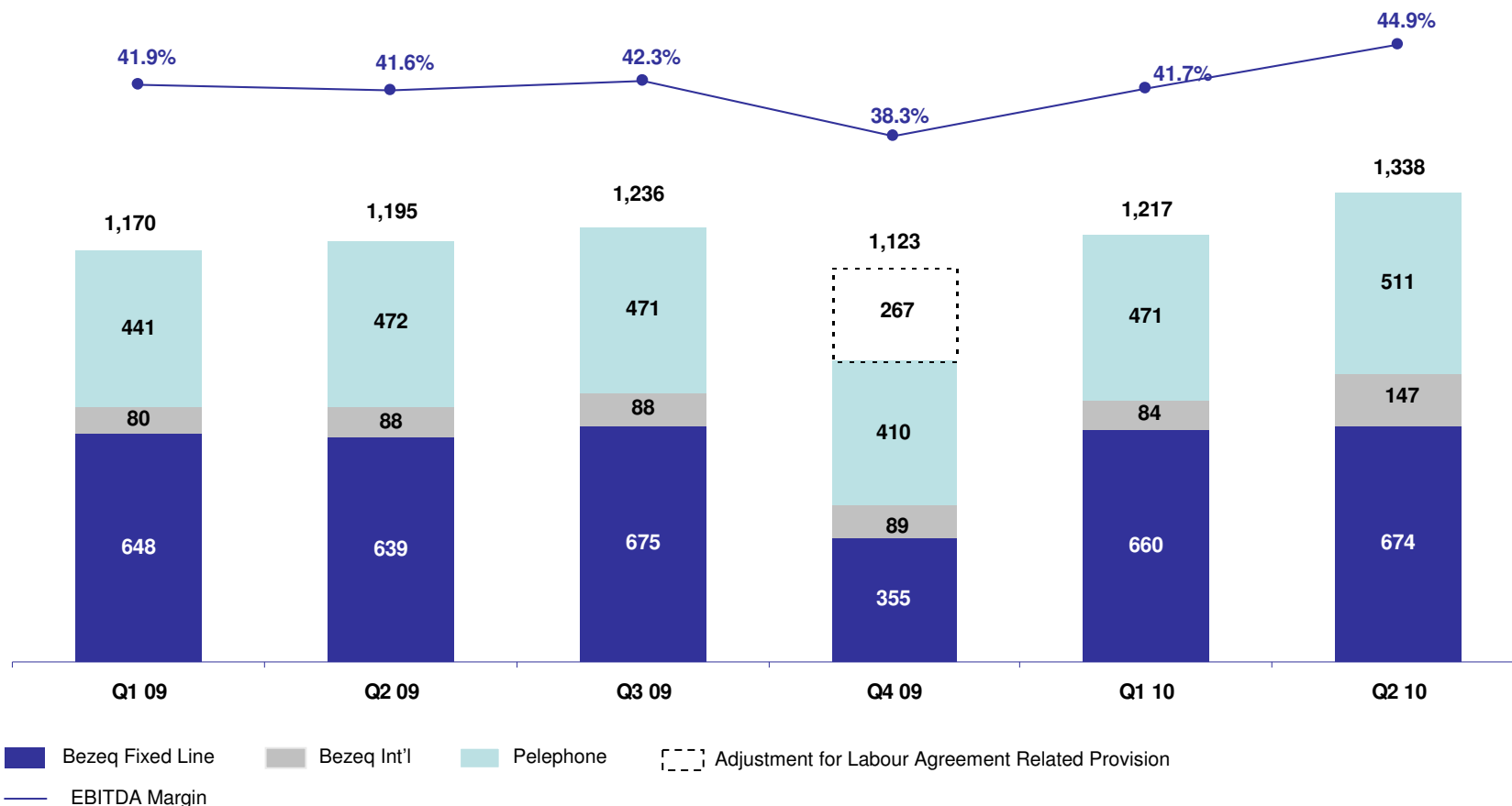
Bezeq Group
Financial Review



EBITDA Development

Consistent EBITDA expansion combined with improved EBITDA margin

Group EBITDA ⁽¹⁾ ⁽²⁾
NIS MM



1. Pro-forma excluding yes' results.

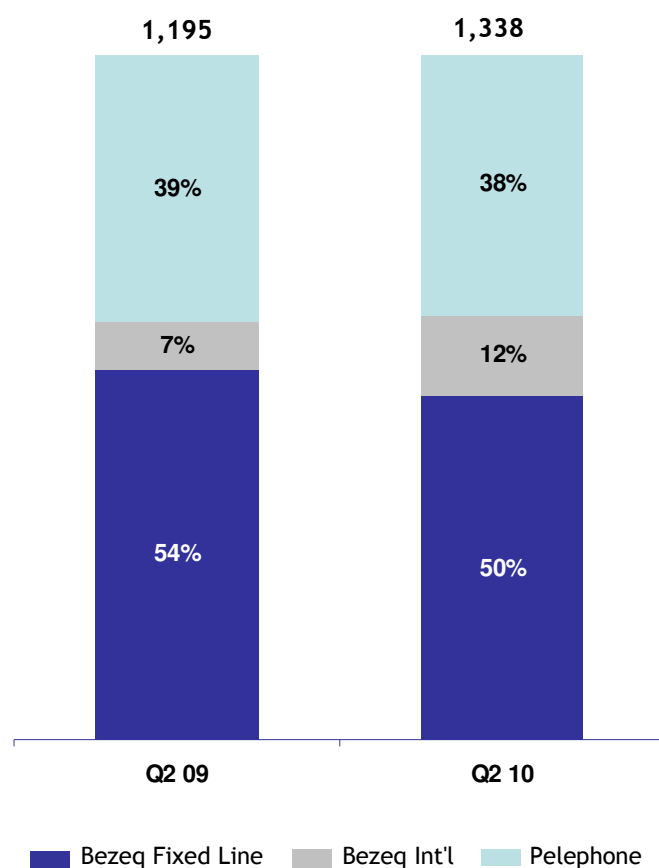
2. Bezeq Group's Q2-10 reflects consolidation of Walla! as of April 25, 2010; Bezeq International's Q2-10 includes a one-time profit of NIS 57MM from increased ownership in Walla!, also reflected in the Bezeq Group total



EBITDA Mix and Margins

Secular YoY EBITDA margin improvement at major operating segments

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



EBITDA Margin per Business Segment

	Q2 09	Q2 10	Change (p.p.)
Bezeq Fixed-Line	48.5%	51.6%	+3.1 p.p.
Bezeq International ⁽²⁾	27.0%	43.1%	+16.1 p.p.
Pelephone	35.1%	35.7%	+0.6 p.p.
Bezeq Group ⁽²⁾ (exc. yes)	41.6%	44.9%	+3.3 p.p.
yes ⁽¹⁾	30.5%	19.1%	-11.4 p.p.

1. Pro-forma excluding yes' results. yes' Q2-10 EBITDA margin reflects a provision for retroactive royalties claimed by ACUM.

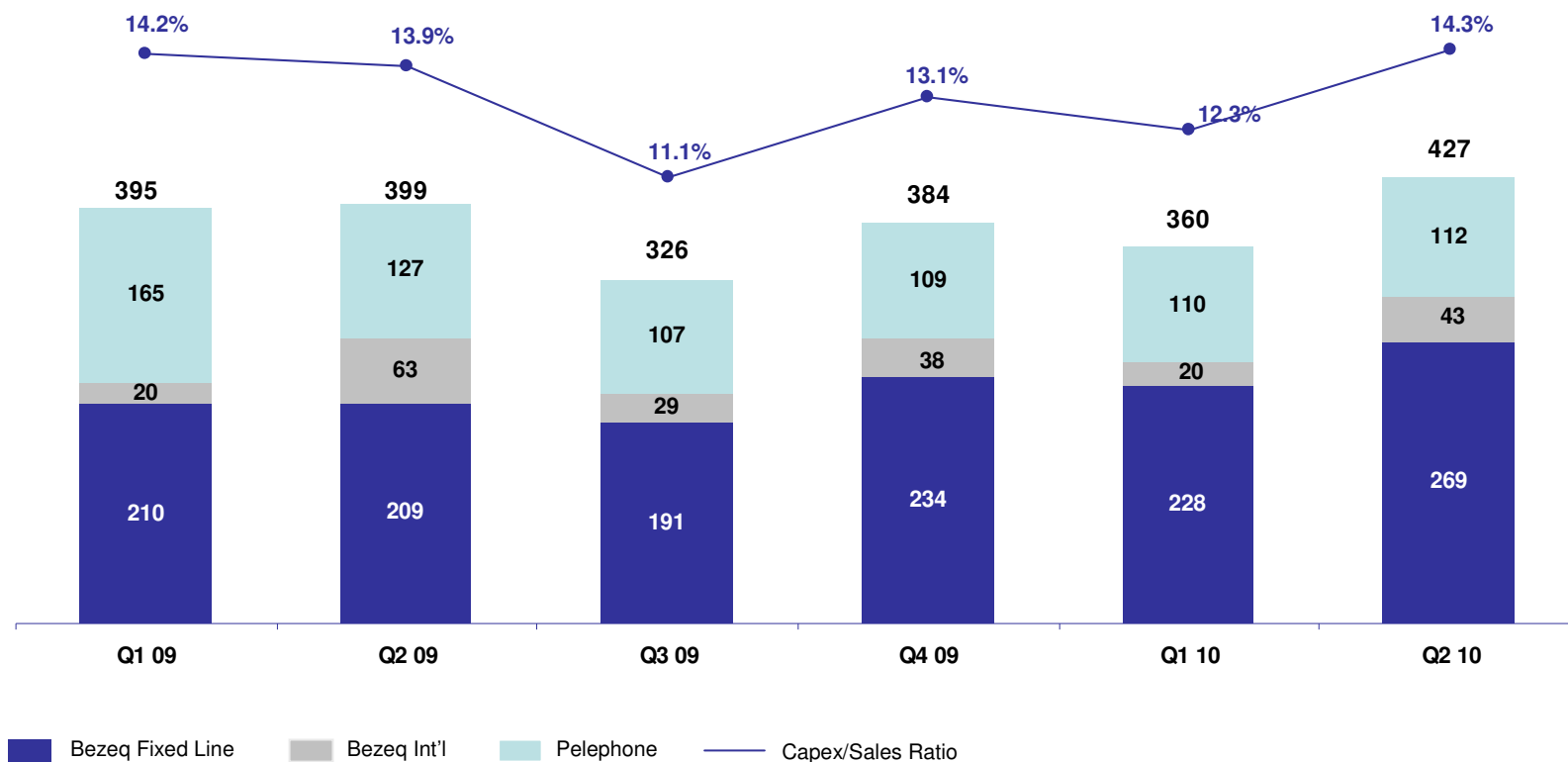
2. Bezeq Group's Q2-10 reflects consolidation of Walla! as of April 25, 2010; Q2-10 include a one-time profit of NIS 57MM from increased ownership in Walla!



CAPEX Development

NGN rollout progress is reflected in increased capex-to-sales ratio

Group Gross Capex ⁽¹⁾
NIS MM



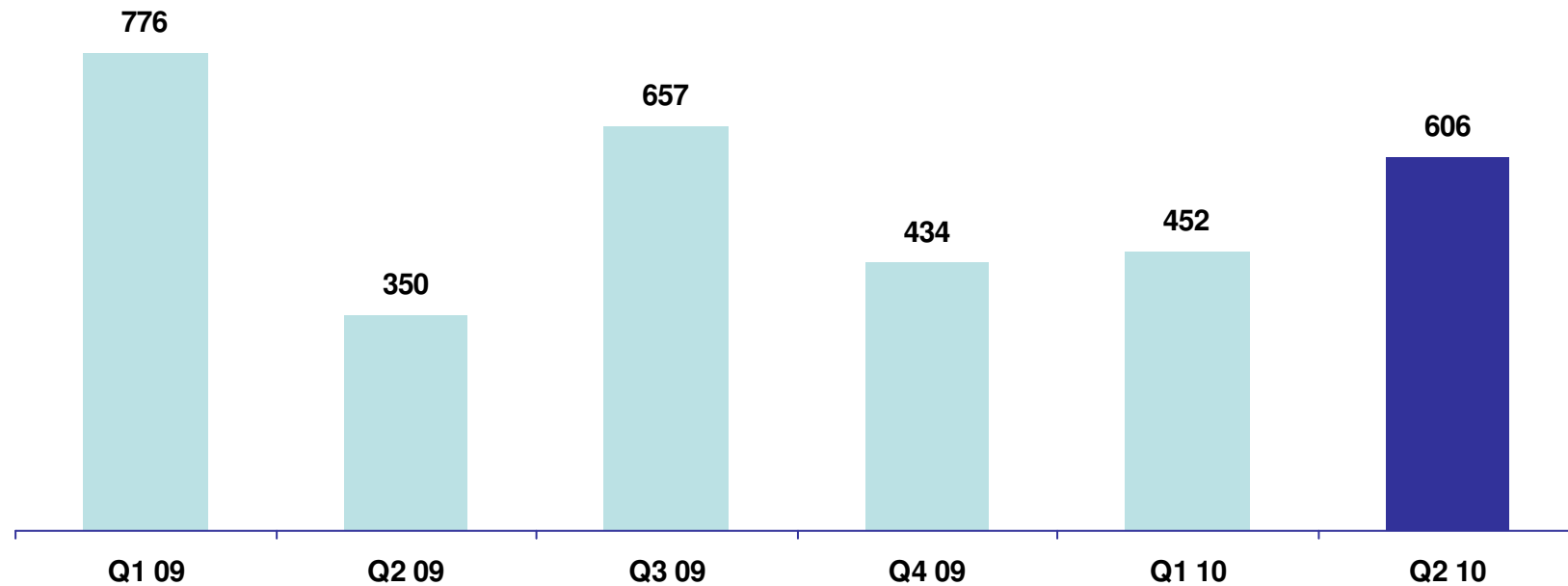
1. Pro-forma excluding yes' results



Free Cash Flow Development

NIS 2.15bn free cash flow in last twelve months

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



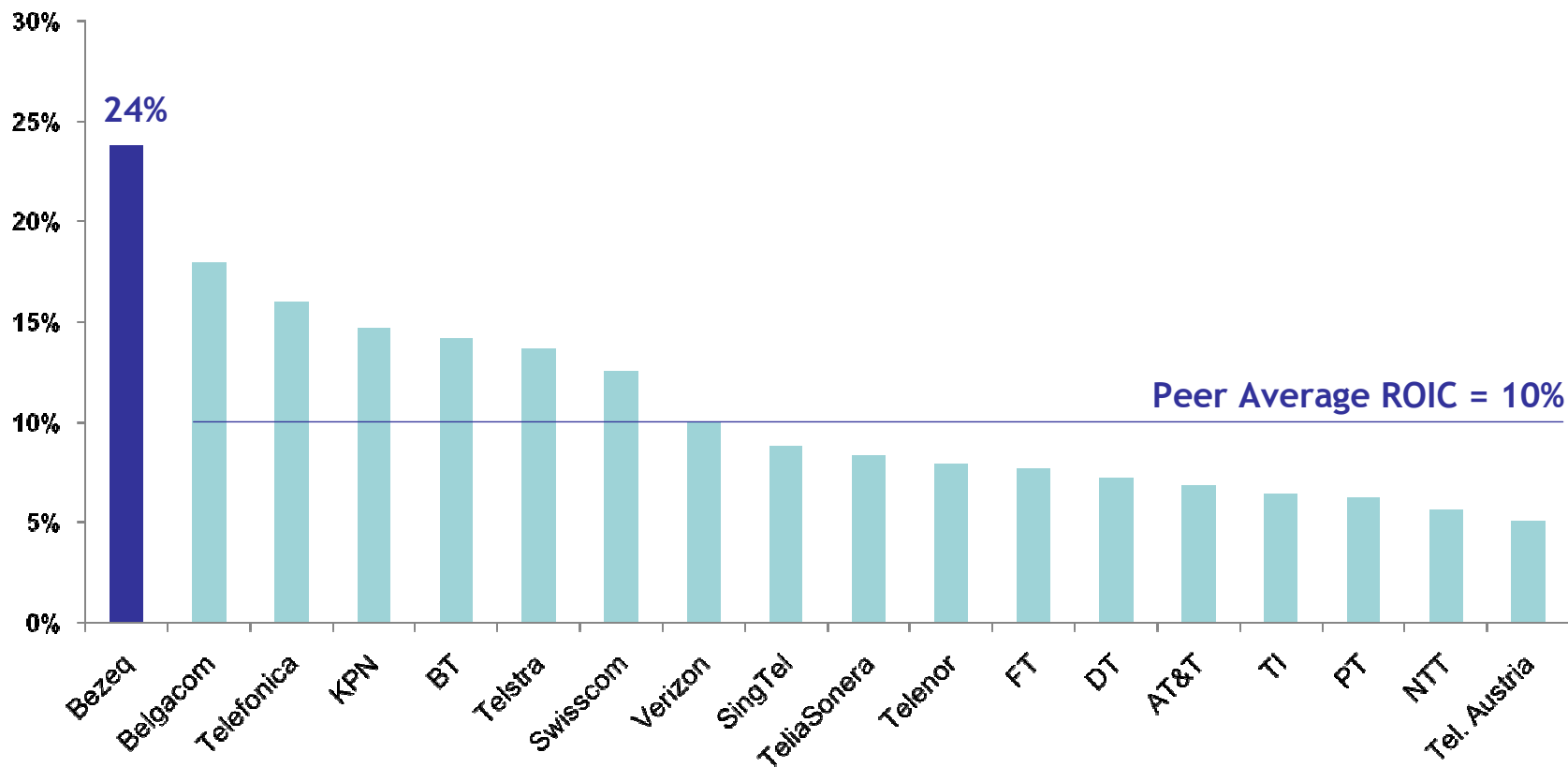
- 1. Pro-forma excluding yes' results
- 2. Free cash flow defined as cash flow from operations - net capex + dividends received



ROIC - Bezeq vs Global Peers

Bezeq's return on invested capital stands out despite intensive network investments

Return on Invested Capital (ROIC) ⁽¹⁾, 2009



Source: Citi Investment Research and Analysis

1. Return on Invested Capital (ROIC) = Adjusted net operating profit after taxes excluding net interest expense and non-operating items (NOPAT), over total assets less excess cash minus non-interest-bearing short-term liabilities and financial assets (invested capital).

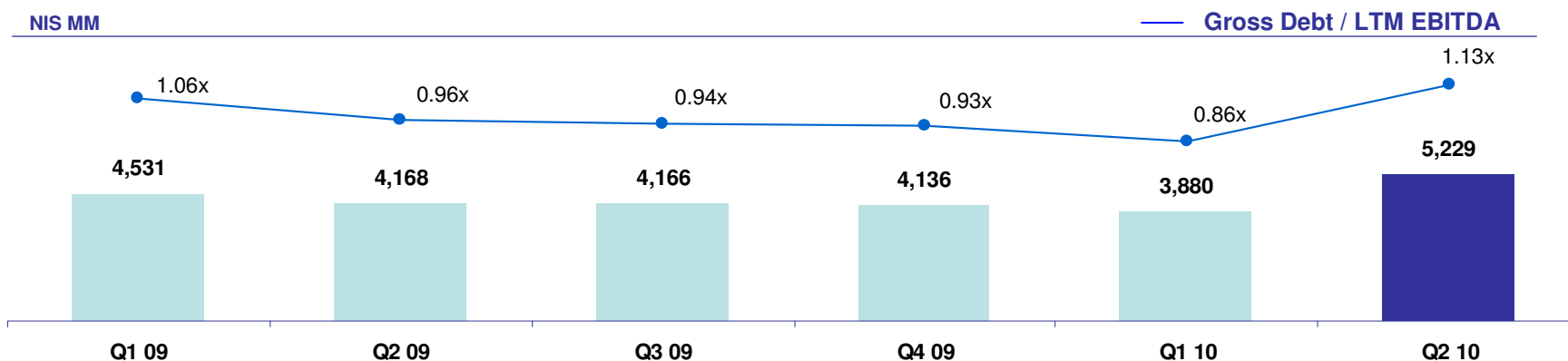


Group Financial Profile

Financial profile remains strong following NIS 1.5bn debt financing in Q2-10

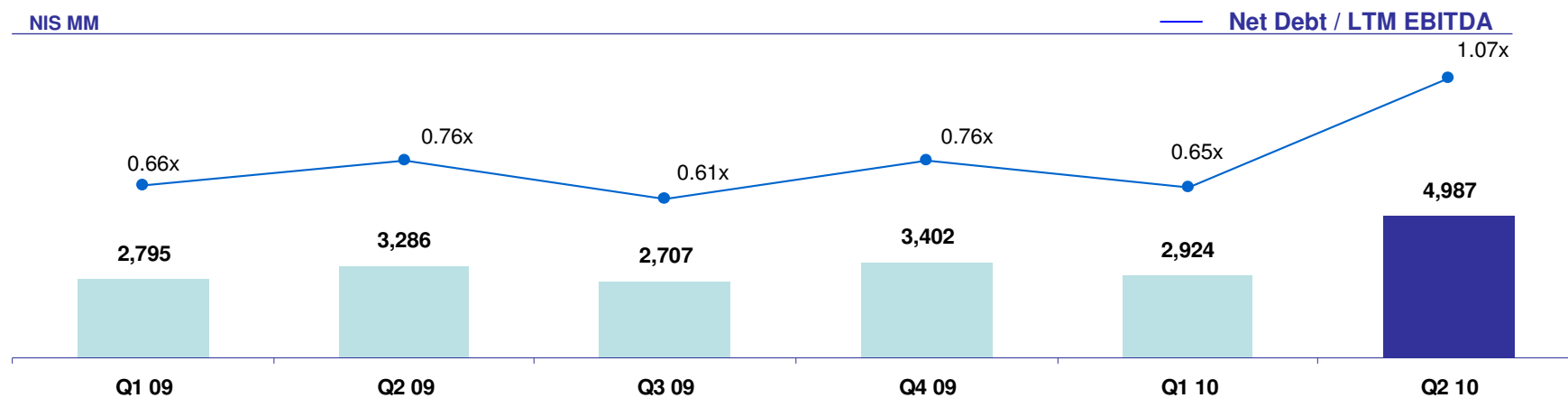
Group Gross Debt ⁽¹⁾

NIS MM

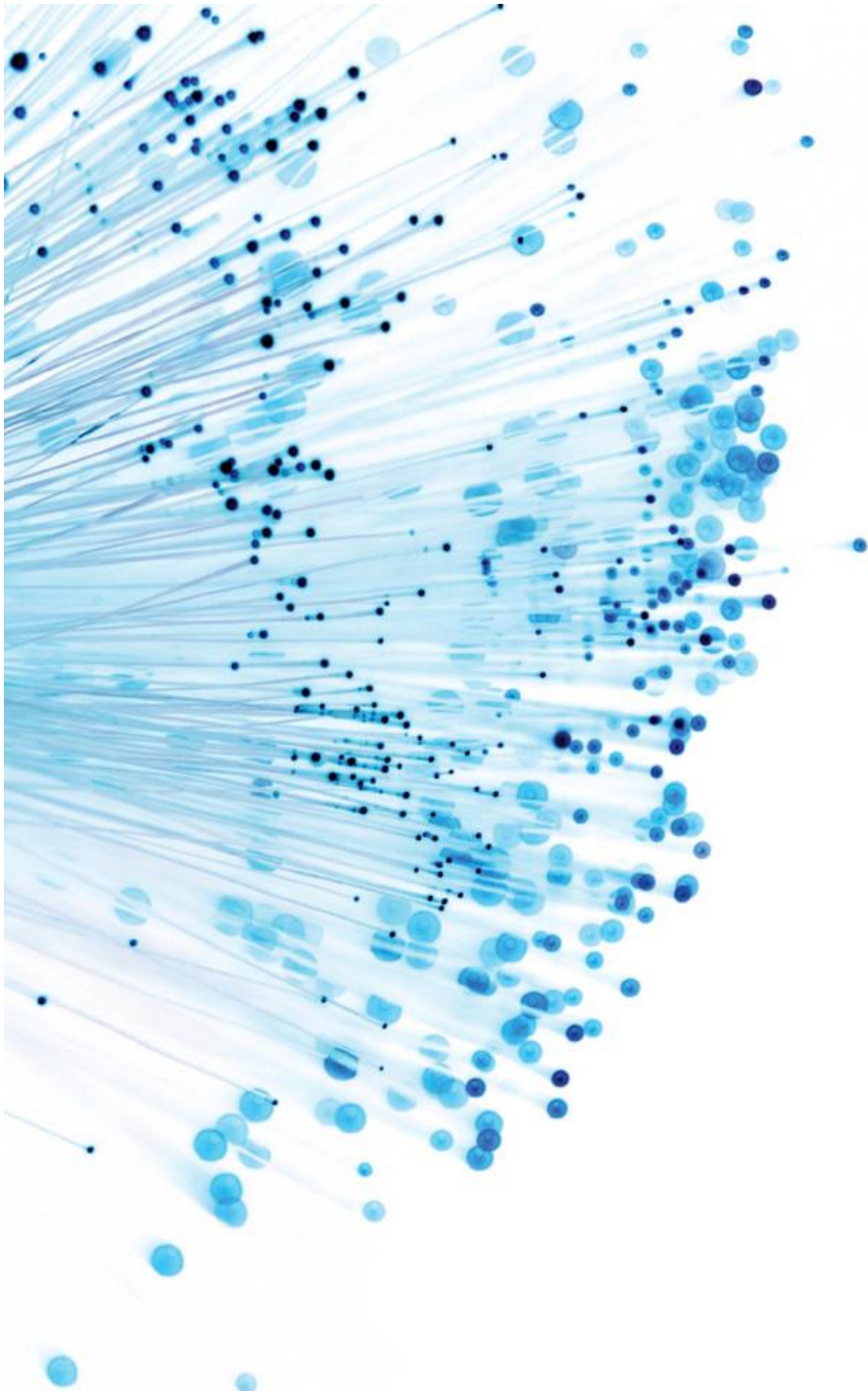


Group Net Debt ⁽¹⁾

NIS MM



1. Pro-forma excluding yes' results



Thank You

For additional information,
please visit our website:

www.bezeq.co.il