

INTERNET GOLD GOLDEN LINES LTD
Form 6-K
April 11, 2005

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

F O R M 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of April 2005

INTERNET GOLD-GOLDEN LINES LTD.
(Name of Registrant)

1 Alexander Yanai Street Petach-Tikva, Israel
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _____

Internet Gold-Golden Lines Ltd.

6-K Items

1. Form of Immediate Report filed with the Israel Securities Authority re Tender Offer Results dated April 7, 2005.
 2. English translation of Prospectus used in Israel.
 3. Press Release re Internet Gold Completes Oversubscribed Sale of Convertible Bonds and Warrants, Raising NIS 220M dated April 11, 2005.
-



INTERNET GOLD - GOLDEN LINES LTD.

(the "Company")

April 7, 2005

To

Israeli Securities Authority

To

Tel-Aviv Stock Exchange Ltd

Pursuant to the Company's prospectus dated March 31, 2005 (hereinafter - the "**Prospectus**"), the Company offered to the public NIS 220,000,000 par value Debentures (Series A) along with 1,500,000 Share Purchase Warrants (Series 1), along with 2,500,000 Share Purchase Warrants (Series 2). All the aforementioned securities were offered to the public in 100,000 units (hereinafter -the "**Units**") by way of a tender on the interest rate for the Debentures (Series A) which shall not be lower than 4% and shall not exceed 5%.

101 institutional investors have undertaken to order 80,000 units of the all Units being offered to the public.

The list of subscriptions for the Units offered to the public was closed on April 7, 2005.

After processing of the data, the results were as follows:

In the tender, 4,710 offers for the purchase of 38,071,822 Units were received (including orders from Institutional Investors), in the total amount of approximately NIS 83,758 millions. The over-subscription in the offering was approximately 380 times the amounts offered.

The interest rate that was determined in the tender was 4% (hereinafter - "**the Determined Interest Rate**"), which was the minimal interest rate.

123 orders for the purchase of 13,362 Units stating an interest rate that is higher than the Determined Interest Rate were not accepted.

101 orders of Institutional Investors for the purchase of 80,000 Units, which stated an interest rate that was equal to the Determined Interest Rate were accepted in part, so that each Institutional Investor placing an order received 50% of its order (rounded down to the nearest Unit), and altogether 39,975 Units. This is due to the over-subscription in the offering that exceeded 5 times the amount offered, which requires according to the TASE directives, to allot to the Institutional Investors 50% of their orders.

2,671 orders from the public for the purchase of 37,742,460 Units stating an interest rate equal to the Determined Interest Rate were accepted in part, so that each applicant received 0.1578% of his order (rounded down to the nearest Unit).

1,815 orders for the purchase of 236,414 Units stating an interest rate equal to the Determined Interest Rate but were, each, for less than 317 Units, were not accepted due to the over-subscription and the low allotment rate that was determined in the tender.

INTERNET GOLD - GOLDEN LINES LTD

English Translation

INTERNET GOLD - GOLDEN LINES LTD.

(the "Company")

PROSPECTUS

Offer to the public of

220,000,000 registered debentures (Series A) of NIS 1 par value each, repayable in eight equal annual installments on April 1 of each of the years 2008 to 2011, bearing interest at a rate to be determined in the tender and which shall not be lower than 4% and shall not exceed 5%, with principal and interest linked to the CPI for February 2005. The interest on the balance of the debentures (Series A) which has not been repaid shall be paid once every twelve months, on April first of each of the years 2006 to 2015. The debentures (Series A) may be converted into ordinary shares on any trading day beginning on the date they are registered for trade on the stock market and through March 31, 2015 (inclusive), with the exception of March 19 through April 1 of each of the years 2008 to 2014, such that by March 31, 2008 (inclusive) each NIS 40 par value debentures (Series A) which were not redeemed shall be convertible into one ordinary share of NIS 0.01 par value each. (Subject to the adjustments as stipulated in Section 9.14 below.) Debentures (Series A) which are not converted by March 18, 2015 shall not grant holders the right to convert them into Company shares.

and of

1,500,000 registered share purchase warrants (Series 1) that can be converted into ordinary shares in the Company on any trading day as of June 1 2005 and through August 15, 2005, such that each option warrant (Series 1) shall be convertible into one ordinary share of the Company of NIS 0.01 par value each against cash payment of exercise price of NIS 32 (subject to the adjustments stipulated in Section 10.11 of the Prospectus). An option warrant (Series 1) which has not been exercised by August 15, 2005 shall expire and be nullified, and shall not grant its holder any rights whatsoever in the Company.

and of

2,500,000 registered share purchase warrants (Series 2) that can be converted into ordinary shares in the Company on any trading day as of June 1 2005 and through 15 October 2007, with the exception of the 12th through the 16th of every month, such that each option warrant (Series 2) can be converted into an ordinary share of the Company of NIS 0.01 par value each against cash payment of the exercise price of NIS 40 linked to the CPI published for February 2005 (as subject to the adjustments stipulated in Section 10.11 of the Prospectus). An option warrant (Series 2) which has not been exercised by 15 October, 2007 shall expire and be nullified, and shall not grant its holder any rights whatsoever in the Company.

Public offering:

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220,000,000 debentures (Series A) along with 1,500,000 share purchase warrants (Series 1), along with 2,500,000 share purchase warrants (Series 2) are offered to the public in 100,000 units by way of a tender on the interest rate for the debentures (Series A). The composition of each unit is as set forth below:

NIS 2,200 par value each debentures (Series A)	NIS 2,200
15 share purchase warrants (Series 1) without consideration	
25 share purchase warrants (Series 2) without consideration	
Total price per unit	NIS 2,200

The list of signatures for purchase of the units offered to the public shall be opened on April 7 2005 at 8:00 AM and shall be closed on the same day at 3:00 PM.

Prior commitments have been received by institutional investors according to which they shall submit applications for their purchase of units, constituting approximately 80% of the units offered to the public. For more information, see Section 5.10 of the Prospectus.

The debentures (Series A) are not secured by any collateral whatsoever. The debentures may only be redeemed immediately in the cases set forth in Section 9.17 of the Prospectus. The Company reserves the right to put pledges on its assets at any level whatsoever without having to receive the approval of the trustee or of the debenture holders.

This Prospectus has been drafted in accordance with an exemption from the Securities Regulations (Details, structure and form of a Prospectus), 5729-1969, granted to the Company by the Israel Securities Authority, by virtue of Section 35(XXIX) of the Securities Law, 5728-1968. With respect to the exemption received by the Company regarding this Prospectus, see page 1 of the Prospectus.

The Company's regular reports are in accordance with US law and are in English, in accordance with the dual listing guidelines stipulated in Chapter E3 of the Securities Law, 5728-1968 and the resulting regulations.

The offer to the public under this Prospectus is made in Israel, solely to residents of Israel and is not intended for US residents. Any person purchasing securities according to this prospectus shall be deemed to have declared that he was not in the US at the time of submitting his request for the securities. No person is entitled to make a solicitation for sale with respect to the securities offered under this Prospectus in the United States. The laws of the State of Israel alone shall apply to this Prospectus, the securities offered under it, the securities and the purchase of securities and anything that stems from or is related to the Prospectus, the offer of securities under it, the securities and their purchase. Sole and exclusive jurisdiction in all matters stemming from them and/or with respect to them is with the authorized courts in Israel and with them alone.

This Prospectus was not submitted to the US Securities and Exchange Commission. The securities offered under this Prospectus are not registered in accordance with the US Securities Act, and it is prohibited to offer and/or sell them in the United States or to US Persons, unless they are registered in accordance with the US Securities Act, or if there is an exemption to the listing requirements under the US Securities Act. With respect to the shares deriving from conversion of debentures (Series A) and the shares from exercise of share purchase warrants (Series 1) and share purchase warrants (Series 2) such an exemption exists, subject to the caveats stipulated in American law regarding interested parties and officers.

The following are the main risk factors which may impact on the Company: Factors related to the Company: (1) In the past, the Company had an operating loss, and it is possible that it may also incur a loss in the future. (2) The results of the Company's activity may fluctuate significantly, and thus lead to fluctuations in share prices. (3) Legislative and regulatory uncertainty may significantly and negatively impact on the Company's licenses and may also have a negative effect on other aspects of the Company's business. (4) The markets in which the Company operates are highly competitive, and it is possible that the Company may not compete successfully. (5) A failure by the Company in effective management of the growth of its business may hurt its business. (6) The Company's strategy may not be successful in the future. (7) If the Company is not successful in developing its brands, it may not attract a sufficient number of customers for its services or enough traffic to its portals to enable it them to be successful. (8) A failure in establishing and retaining strategic and marketing relationships, as well as other relationships with third parties may limit the Company's ability to attract and retain users. (9) There is no guarantee the Company's investments in partnership agreements will prove successful. (10) Should the Company lose key figures or not be able to recruit additional employees, its business may be hurt. (11) Limitations on the Company's network capacity may prevent it from delivering service to its

customers and may force it to expand the capacity of its network and systems. (12) Failures in our systems may disrupt services to our customers and may cause them to leave. (13) The Company is dependent on third-party systems and services to provide services to its customers. (14) The Company's international telephony services are subject to numerous additional risks, including risks with respect to its communications network. (15) Should the Company require additional capital, it may not be able to raise it under good conditions or at all. (16) The industry in which the Company operates is marked by rapid changes in technology and frequent launches of new products and services; the Company may not be able to keep up with the rapid pace of technological advancement or other changes. (17) Our success in the future is dependent on continued growth in Internet use, international telephony services and other related services in Israel. (18) The Company may not be able to secure wide market distribution of its services due to concerns regarding the reliability and security of Internet-based communication. (19) The Company may be held responsible for information secured through its services or through products and services sold on its portals. (20) Insufficient protection of the Company's intellectual property may prevent it from protecting its intellectual property or enforcing its rights in this respect.

Factors related to the Company's relationships with the Eurocom Group (organizations related to the controlling shareholder in the Company): (21) Subject to the law, a controlling shareholder in the Company, by virtue of his/her holdings of shares, may significantly impact on its business, including in ways which may go against the best interest of public shareholders.

Factors related to the Company's shares: (22) The value of the Company's shares is subject to much fluctuation and may decline. (23) The price of a share in the Company may be significantly and negatively impacted from the sale or assumption that certain shareholders will demand that Company sells their shares. (24) Provisions against takeovers may negatively affect the Company's shareholders.

Factors related to debentures (Series A): (25) The Company may not be able to meet payments to its creditors in the future.

Factors related to the Company's activity in Israel: (26) Management of the Company's business in Israel leads to a number of special risks. (27) The results of its activity may be negatively or positively impacted by the obligation its employees have to serve in the military. (28) The economic condition in Israel in recent years was not stable. (29) The Company's business may be affected by fluctuations in the exchange rate of the Israeli shekel. (30) The provisions of Israeli law may reject, prevent or make acquisition of the Company difficult, which may prevent a change in control of the Company and thus lead to a drop in the price of its stock. (31) The rights of the shareholders in the Company are regulated by the provisions of Israeli law, which in some respects is different from the rights and obligations on shareholders under US law.

For a full description of the risk factors affecting the Company, see Chapter 3 of the Prospectus.

The bylaws of the Company contain provisions with respect to Sections 50(A), 85, 87(A)(4) and 259 of the Companies Law, 5759-1999. See Chapter 10 of the Prospectus.

With respect to transactions between the Company and a company related to the controlling shareholder, see the Section regard Gold Trade (Electronics-Trade) Ltd. in the **About Us** section on page 6 of the Prospectus.

The offer of securities to the public under this Prospectus is underwritten (see Chapter 17 of the Prospectus). Total underwriting, management, distribution and other expenses related to this offer, including commissions to institutional investors are estimated at approximately 3.6% of the gross immediate consideration. With respect to obligation to indemnify the Company against the underwriters, see Section 17.4 of the Prospectus.

A court case has been filed against the trustee for the debentures (Series A). For detailed information, see Section 9.22.1 below.

Consortium managers and underwriters:

Poalim IBI Apax Underwriting Ltd.

Trustee for debentures (Series A): Investec Trust Company (Israel) Ltd.

Date of Prospectus: March 31, 2005

Permits

The Company has received all the permits, authorizations and licenses required by law governing the offer and issue of securities, and publication of this Prospectus.

A permit from the Securities Authority to publish this Prospectus does not constitute verification of its details or confirmation of their reliability or integrity, nor does it express an opinion as to the quality of the offered securities.

The Tel Aviv Stock Exchange Ltd. (hereinafter, the “Stock Exchange”) has approved the listing of the debentures (Series A) under this Prospectus, and the shares derived from their conversion, the options (Series 1) and the shares derived from their exercise, the options (Series 2) and the shares derived from their exercise.

The approval from the Tel Aviv Stock Exchange does not constitute approval of the details contained in the Prospectus, or of their reliability or integrity, nor does it constitute an opinion of the Company or of the quality of the securities offered or of the price at which they are offered.

The listing of the securities offered under this Prospectus is contingent upon minimal distribution of the debentures (Series A), as set forth in Section 5.5.2.1 of the Prospectus.

The offer to the public under this Prospectus is made in Israel, solely to residents of Israel and is not intended for US residents. Any person purchasing securities according to this prospectus shall be deemed to have declared that he was not in the US at the time of submitting his request for the securities. No person is entitled to make any solicitation with respect to the securities offered under this Prospectus in the United States. The laws of the State of Israel alone shall apply to this Prospectus, the securities offered under it, the securities and the purchase of securities and anything that stems from or is related to the Prospectus, the offer of securities under it, the securities and their purchase. Sole and exclusive jurisdiction in all matters stemming from them and/or with respect to them is with the authorized courts in Israel and with them alone.

This Prospectus was not submitted to the US Securities and Exchange Commission. The securities offered under this Prospectus are not registered in accordance with the US Securities Act of 1933 (“US Securities Act”) in the United States, and it is prohibited to offer and/or sell them in the United States or to US Persons, unless they are registered in accordance with the US Securities Act, or if there is an exemption to the listing requirements under the US Securities Act. With respect to the shares from conversion of debentures (Series A) and the shares deriving from exercise of share purchase warrants (Series 1) and share purchase warrants (Series 2) such an exemption exists, subject to the caveats stipulated in American law regarding interested parties and officers.

The decision to purchase the securities offered under this Prospectus should be made based solely on the information provided in it. The Company has not allowed any person and/or organization to provide information other than what is set forth in this Prospectus. The Prospectus is not an offer for securities in any country other than the State of Israel.

Exemption by the Israel Securities Authority

Section 35(XXIX) of the Securities Law, 5728-1968, (hereinafter, “Securities Law”) stipulates, *inter alia*, that the Israel Securities Authority is entitled to issue exemptions to the provisions regarding information in the details, structure and form of a Prospectus, in whole or in part, to a corporation incorporated in Israel which is offering securities to the public if its securities are listed for trade on a foreign stock exchange.

The Israel Securities Authority exempted the Company from application of the Securities Provisions (Details, Structure and Form of a Prospectus), 5729-1969, with respect to this Prospectus (hereinafter, “Prospectus Details

Regulations” and “Authority Exemption”, respectively). The Authority Exemption was conditioned upon the Company preparing the Prospectus in the same manner it would if it were issuing securities of the type offered to the public under this Prospectus in the US in accordance with the provisions of the US Securities Act of 1933.

In accordance with the Authority Exemption, the Company has prepared this Prospectus based on the requirements of the US Securities Act of 1933 and the regulations of the US Securities and Exchange Commission (SEC), on form F-2 (hereinafter, “Form F-2”).

Accordingly, this Prospectus (including the documents it includes by way of reference), in all material respects, meets the requirements of Form F-2, with the exception of the following: Cover Page, Licenses, Public Offering chapter, Debenture Terms chapter, certain appendices and obligations that are not included in this Prospectus and which are not significant with respect to the public offer of securities to the Israeli public. It should be emphasized that this Prospectus was not submitted to the SEC and was not examined by it.

The following sections: “Permits”, the Cover Page, “Public Offering” chapter, “Debenture Terms” chapter, “Share Purchase Warrants” chapter, “Underwriting” chapter, Legal Opinion in the Opinion Chapter and the prospectus signatures were prepared in Hebrew in accordance with the provisions of the Prospectus Details regulations.

The remaining prospectus chapters were prepared in the same manner the Company would have prepared it if it were issuing securities of the type offered here to the public in the US as aforementioned.

The Company's regular reports are in accordance with US law and in English, in accordance with the guidelines for dual listing defined in Chapter E3 of the Securities Law and the regulations enacted by virtue of it. Furthermore, under the Authority Exemption, the Company shall continue to report in accordance with said guidelines for dual listing as stated above.

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1. SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

The statements incorporated by reference or contained in this prospectus discuss our future expectations, contain projections of our results of operations or financial condition, include other forward-looking information and contains various "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, and within the U.S. Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements (whether such statements actually declare themselves as such or not) reflect our current view with respect to future events and financial results. Forward-looking statements usually include the verbs "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "understands" and other verbs suggesting uncertainty. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry trends, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Various factors discussed in this prospectus, including, but not limited to, all the risks discussed in "Risk Factors" and in our other Securities Exchange Commission, or SEC and Israeli Securities Authority, or ISA filings may cause actual results or outcomes to differ materially from those expressed in forward-looking statements. You should read and interpret any forward-looking statements together with these documents.

Any forward-looking statement speaks only as of the date on which that statement is made. We will not update any forward-looking statement to reflect events or circumstances that occur after the date on which such statement is made.

You should carefully read this entire prospectus, including our prior filings with the SEC and the ISA, which accompany this prospectus. Unless otherwise indicated, all monetary amounts or financial figures in this prospectus are in New Israeli Shekels, or NIS.

2. PROSPECTUS SUMMARY

This section answers in summary form some questions you may have about us and the offerings under this Prospectus. Because it is a summary, it may not include all of the information that is important to you. You should read the entire prospectus carefully, especially the "Risk Factors" Chapter (Chapter 3) and the financial data contained elsewhere in this Prospectus or incorporated herein.

About Us

We were incorporated under the laws of the State of Israel in April 1992 under the name Euronet Golden Lines (1992) Ltd. In June 1999 we changed our name to Internet Gold - Golden Lines Ltd. We are a public limited liability company under the Israeli Companies Law 1999 and operate under this law and associated legislation. Our registered offices and principal place of business are located at 1 Alexander Yanai Street, Petach Tikva, Israel, and our telephone number is 972-3-939-9848. Our address on the Internet is www.zahav.net.il or www.zahav.msn.co.il. We also have an investor information site, at www.igld.com. The information on our websites is not incorporated by reference into this Prospectus.

We began our Internet access business in January 1996 under the brand name "Internet Gold." We provide a wide array of Internet services tailored to meet the needs of our residential, small office and home office, or SOHO, and business subscribers, including Internet access and related value-added services, content and e-commerce activities through portals, as well as international telephony services. Our Internet access packages include basic access accounts, asymmetrical digital subscriber lines, or ADSL and cable services, virtual private networks, or VPN, ISDN dial-up accounts, leased and frame relay lines and dial-up networking. We also provide hosting, integration, technological services and value-added solutions.

In June 2004, the Israeli Ministry of Communications granted us a license to provide international telephony services with an international prefix code of 015, sometimes referred to as international telephony services, 015 international telephony services, or 015 Services. In August 2004, we launched the 015 international telephony services.

In November 2004, we received a license for the marketing experiment for the provision of internal telephony services. The license expires on November 30, 2005. Due to disagreements between the Ministry of Communications and Bezeq, we have not been able to act under the license.

The Internet Gold Group consists of us and several subsidiaries:

MSN Israel Ltd., or MSN Israel - our 50.1% owned joint venture with Microsoft Corporation (49.9% owned). MSN Israel manages the MSN Israel portal, offering Hebrew-reading Internet users MSN features such as personalized services, varied Internet content, e-commerce services (MSN Shops), four of Microsoft Internet leading platforms - "Hotmail," "Messenger," "Passport," and "MSN Search" an Internet search engine as well as news. We agreed with Microsoft that we would invest in MSN Israel and be responsible for its operating losses and capital expenditures. We and Microsoft each has the right to terminate the agreement in case the cumulative losses of MSN Israel reach or exceed \$10 million. In 2003, MSN Israel reached operating profitability as it developed new revenue channels such as Hosted Exchange, Hotmail's mail platform, and Messenger. In 2004 MSN Israel increased its revenues and profitability.

Gold Mind Ltd., or Gold Mind - a wholly owned subsidiary. Gold Mind is engaged in the marketing and sale of Internet contents and technologies, such as anti-virus and anti-spam services, value added services and virtual magazines and develop selected Internet content ventures. In addition, Gold Mind is the owner of one of Israel popular Internet interactive games website - Vgames (www.vgames.co.il) and of a leading Russian-language portal -

www.zahav.ru.

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Start Net Ltd., or Start - In November 2004, Gold Mind acquired 50% of the shares in Start from Ze'evi Computers & Technology Ltd., under a dissolution process. In December 2004 Gold Mind acquired the remaining 50% of Start's shares from MSN Israel. As per an agreement between Start and MSN Israel, MSN Israel manages the Start portal for Start. In March 2005, Start entered into an exclusive agreement with GOOP, one of Israel's most popular youth-oriented portals. Under this agreement, Start purchased all of GOOP's advertising properties until February 2007 (a period which will be automatically extended, unless otherwise notified by either party to the other), with an option for Start to discontinue the agreement after six months.

Nirshamim Lalimudim Ltd., or Nirshamim - In March 2005, Gold Mind acquired 50% of the shares of the Nirshamim, a company operating the Israeli portal "Nirshamim" (www.nirshamim.co.il). The remainder of the shares will continue to be held by Nirshamim's founders. Nirshamim is a leading academic portal in Israel, servicing the university and post-university sector. Nirshamim's revenues derive from advertising educational institutions.

Internet Gold International Ltd., or IGI - IGI engages in the promotion and advancement of cooperation activities with international corporations. Within the framework of such activities, IGI provides UUNET with Internet infrastructure segments for the benefit of UUNET's customers in Israel.

Gold Trade (Electronic Commerce) Ltd., or Gold Trade - In December 2004, we purchased all the outstanding shares in Gold-Trade from the founders of Gold Trade, including from Eurocom Marketing (an affiliated company). Gold Trade provides e-commerce services on its "P1000" mega-mall. In November 2004, Gold Trade's board of directors resolved to cease all its operations except for its e-commerce activity on the P-1000 website. Gold Trade also holds 50% of the rights in one of Israel most popular interactive book shop sites - www.dbook.co.il.

Our Strategy

In the fourth quarter of 2002, we adopted a more aggressive marketing policy in order to attract a greater number of broadband customers and have continued to implement this policy while continuing to keep tight control on our expenses. This strategy yielded a 54% increase in the number of broadband customers in 2004 as compared to 2003. We decided to continue this policy during 2005. In order to penetrate the international telephony market and retain customers, during the second half of 2004 we adopted an aggressive approach which included launching an advertising campaign in all media while offering customers fair prices, which were lower than the prices offered by the then current providers.

Ratio of Earnings to Fixed Charges**Under IS-GAAP**

	Year ended December 31				
	2000	2001	2002	2003	2004
	(in thousands)				
Pre-tax earnings (loss) from continuing operations	(71,840)	(13,019)	28,568	17,643	24,389
Fixed charges	13,797	10,857	1,535	878	1,580
Company's share in net loss of investees			(1,530)	(1,538)	(396)
Minority interest in loss of a subsidiary	1	963			
Adjusted pre-tax earnings (loss) from continuing operations	(58,042)	(1,199)	28,573	16,983	25,573
<u>Fixed charges</u>					
Interest charges (1)	13,274	10,129	719	(350)	38
Rental interest factor (2)	523	728	808	1,053	1,447
Interest expense for equity companies whose debt is guaranteed	-	-	8	175	95
Total	13,797	10,857	1,535	878	1,580
Ratio of earning to fixed charges (3)	-	-	18.61	19.34	16.19

(1) Interest expenses and adjustment of long-term loan and leases - in 2003 we recorded earnings from long-term loans, which were adjusted to the US\$/NIS exchange rate.

(2) Rental interest factor is calculated as one third of the total rent expenses.

(3) Earnings were insufficient to cover fixed charges requirements for the years ended December 31, 2000, 2001, by NIS 71.84 million and NIS 12.06 million, respectively.

Under US-GAAP

	Year ended December 31				
	2000	2001	2002	2003	2004
	(in thousands)				
Pre-tax earnings (loss) from continuing operations	(77,391)	(11,879)	24,633	14,735	23,550
Fixed charges	13,797	10,857	1,545	1,081	1,681
Company's share in net loss of investees					
Minority interest in loss of a subsidiary	6,482	5,647	2,418	2,204	3,312
Adjusted pre-tax earnings (loss) from continuing operations	(57,112)	4,625	28,596	18,020	28,543
<u>Fixed charges</u>					
Interest charges (1)	13,274	10,129	737	28	234
Rental interest factor (2)	523	728	808	1,053	1,447
Interest expense for equity companies whose debt is guaranteed	-	-			
Total	13,797	10,857	1,545	1,081	1,681
Ratio of earnings to fixed charges (3)	-	-	18.51	16.67	16.98

(1) Interest expenses and adjustment of long-term loan and leases - in 2003 we recorded earnings from long-term loans, which were adjusted to the US\$/NIS exchange rate.

(2) Rental interest factor is calculated as one third of the total rent expenses.

(3) Earnings were insufficient to cover fixed charges requirements for the years ended December 31, 2000, 2001, by NIS 70.9 million and NIS 6.2 million, respectively.

Summary of the Terms of the Offering

The following is not intended to be complete. For a detailed description of the offering, please see Chapter 5 of the prospectus.

The securities we are offering under this Prospectus are as follows:

220,000,000 Debentures (Series A) of NIS 1 par value, repayable (principal) in 8 equal annual installments on April 1 of each of the years 2008 to 2015 (inclusive), bearing interest per year as shall be determined in the tender for the Debentures' interest and linked (principal and interest) to the Israeli consumer price index published on March 15, 2005 for February 2005. The interest will be paid every twelve months, on April 1 of each of the years 2006 to 2015 (inclusive). The Debentures are convertible to our ordinary shares on each trade day, as of the day they are registered until March 16, 2015 (inclusive, except for March 17 to April 1 of each of the years 2008 to 2014. The conversion price will be NIS 40 of Debentures per one of our ordinary shares until March 31, 2008, and NIS 50 of Debentures per one of our ordinary shares since April 1, 2008 until March 31, 2015 (all subject to adjustments as specified in section 9.14). Debentures (Series A) which will not be converted into ordinary shares until March 16, 2015 (inclusive) will not grant their holder a right to conversion.

1,500,000 Stock Purchase Warrants (Series 1), registered in the name of their owner, exercised into our ordinary shares of NIS 0.01 par value each, on each trade day as of June 1, 2005 until August 15, 2005 (inclusive). The exercise price will be NIS 32 per one of our ordinary shares, subject to adjustments as specified in section 10.11. Stock Purchase Warrants (Series 1) which will not be exercised into ordinary shares until August 15, 2005 (inclusive) will expire and become void and will not grant their holder any rights.

2,500,000 Stock Purchase Warrants (Series 2), registered in the name of their owner, exercised into our ordinary shares of NIS 0.01 par value each, on each trade day as of June 1, 2005 until October 15, 2007 (inclusive), except for the 12th to the 16th day of each month. The exercise price will be NIS 40 per one of our ordinary shares, linked to the consumer price index, and subject to adjustments as specified in section 10.11. Stock Purchase Warrants (Series 2) which will not be exercised into ordinary shares until October 15, 2007 (inclusive) will expire and become void and will not grant their holder any rights.

The Offering consists of 220,000,000 Debentures (Series A) together with 1,500,000 Stock Purchase Warrants (Series 1) together with 2,500,000 Stock Purchase Warrants (Series 2) offered to the public in 100,000 units (the “Units”) by way of tender over the percentage of the Debentures' interest. The interest for the Debentures will not be higher than 5% (the “Maximal Interest”) and will not be lower than 4% (the “Minimal Interest”)

The composition of every Unit is as follows:

2,200 Debentures (Series A)	NIS 2,200
15 Share Purchase Warrants (Series 1)	at no cost
25 Share Purchase Warrants (Series 2)	at no cost
Total Price Per Unit	NIS 2,200

THIS OFFERING IS BEING MADE EXCLUSIVELY IN ISRAEL TO RESIDENTS OF ISRAEL. NO PERSON IS AUTHORIZED TO MAKE ANY SELLING EFFORTS IN CONNECTION WITH THIS OFFERING IN THE UNITED STATES.

Use of Proceeds

The net proceeds that we will receive from this offering are estimated to be NIS 212.2 million (US \$ 48.6 million) after deduction of the underwriters' fees and commissions and the estimated expenses of the offering.

We intend to use the net proceeds from the offering for general corporate purposes, as shall be from time to time determined by our board of directors.

We have explored and will continue to explore business opportunities and potential investments in the communication field. We believe that the proceeds from the offering will enable us to take advantage of structural changes in Israel's communications marketplace, giving rise to opportunities for us to increase our share in the markets in which we are currently active and to enter new markets. However, we cannot be sure whether any of these opportunities will become actual.

3. RISK FACTORS

An investment in our securities is speculative and involves a high degree of risk and uncertainty. Therefore, you should not invest in our securities unless you are able to bear a loss of your entire investment. You should carefully consider the following factors as well as the other information contained in this prospectus before deciding to invest in our securities. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below. This Prospectus and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. The information in this prospectus is complete and accurate as of this date, but the information may change after the date of this Prospectus.

Risks Relating to Internet Gold

We have experienced operating losses in the past and may incur losses in the future.

Although we have operated profitably since the third quarter of 2001, we cannot assure you that we will continue to be profitable. Most of our revenues have been derived from Internet access fees. As contemplated by our business plan, we intend to increase revenues derived from our various activities, and specifically, access fees for broadband services, provision of international telephony services, advertising on our portals and from e-commerce activities. These activities are expected to involve substantial sales and marketing expenses, and other costs.

We may be required to make additional investments in order to maintain or to improve the level of our services, which will impair our profitability and no assurance can be given that the services or any of them will be profitable.

We cannot assure you that we will be able to continue to successfully implement our business plan in the future.

Our operating results are likely to fluctuate significantly and may cause our share price to be volatile.

Our revenues and operating results may vary significantly from quarter to quarter. As a result, you should not rely on quarter-to-quarter comparisons of our revenues and operating results as an indication of our future performance. In addition, due to the volatility in our market we cannot predict our future revenues or results of operations accurately. It is possible that in one or more future quarters our operating results will fall below the expectations of securities analysts and investors. If this happens, the trading price of our securities is likely to fall.

We expect to be heavily dependent on revenues from subscribers using our Internet access services for the foreseeable future. As a result, our revenues will be affected by our ability to retain current subscribers and attract new profitable subscribers. Our residential subscribers have the option of discontinuing their subscriptions for any reason at any given month and our leased line subscribers have the option of discontinuing their subscriptions for any reason upon 30-days' written notice. As a result, revenues can fluctuate from month to month without much advance notice. Some of our expense levels, such as selling and marketing expenses, are based, in part, on our expectations as to future revenues. To the extent our actual revenues are below expected revenues, we may be unable to adjust spending quickly enough to offset the shortfall in revenue, which may cause our business and financial results to suffer.

Regulatory and legal uncertainties could adversely affect the terms of our licenses and could harm other aspects of our business.

There have been various regulations and lawsuits, mainly in the United States, relating to the liability of Internet service providers for information carried on or through their services. The law in this area is unsettled and there may be new legislation and court decisions that expose companies such as ours to liabilities or affect their services. Additional laws and regulations may be adopted with respect to the Internet, covering issues such as content, user privacy, pricing, commerce, export and other controls. Regulatory developments could harm our business. Our Internet access business is subject to a license granted by the Israeli Ministry of Communications, which was renewed in January 2002 for an additional period of five years. The license grants us the right to provide Internet and related services, subject to several conditions mentioned in the license. The tendency of the Ministry of Communications not to limit the number of Internet service licenses is likely to increase competition, and may lead to a reduction in fees charged to subscribers. In April 2002 the Ministry of Communications granted the cable television network providers licenses permitting them to supply infrastructure for the provision of Internet access through the current ISPs, but does not allow them to become ISPs themselves. However, we cannot predict whether the cable television network providers will be allowed to become ISPs in the future or if their licenses may be amended in any way, and how this will affect us. In addition, we cannot assure you that unfavorable regulations would not adversely affect our business.

In June 2004, we received a license to provide international telephony services for a period of twenty years, commencing on the date of receipt of the license, which may be extended by the Ministry of Communications for additional 10-year periods. The license grants us the right to provide international telecommunication voice services and other related services, subject to several conditions mentioned in the license. We cannot be sure how the launch of the new international telephony services by Netvision Ltd. and Xfone Communication Ltd. or how the grant of additional licenses by the Ministry of Communications will affect us. In addition, we cannot assure you that unfavorable regulations would not adversely affect our business.

We may be exposed to substantial liabilities arising out of our business, especially those liabilities that are related to Internet activities. Currently, we have a professional liability insurance policy which may not cover all such exposure. In the event that we are found to be responsible for any such liability and/or required to pay for any damages resulting from any such responsibility, our business may be adversely affected.

The markets in which we operate are highly competitive and we may be unable to compete successfully.

ISP market. We operate in the Internet access services markets, which by their nature have low barriers to entry and are extremely competitive. We expect intense competition in our markets to continue in the future. Increased competition could require us to lower our prices, grant incentives to subscribers and increase our selling and marketing expenses and related subscriber acquisition costs, and could also result in increased subscriber cancellations, loss of visitors to our portals and lower advertising revenues. We may not be able to offset the effect of these increased costs through an increase in the number of our subscribers, subscriber revenues or revenues from other sources.

The ISP market in Israel is characterized by many participants. We also expect to face competition from telephone and cellular phone companies, cable television and DBS providers, wireless voice and data service providers and others. These companies could exploit their current established network infrastructure, high rate of penetration of households, and their ability to provide Internet access at significantly faster speeds and potentially include Internet access in their basic bundle of services or offer access for a nominal additional charge. In April 2002, the Ministry of Communications granted the cable television network providers licenses permitting supply of infrastructure for the provision of Internet access through the current ISPs, in addition to Bezeq's license. However, we cannot predict whether the cable television network providers or Bezeq will become ISPs and consequently our competitors in the future or how these licenses may be amended in the future and how this will affect us. Additional international ISPs

may also enter the Israeli market.

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Portal advertising. In order to attract advertisers, we need to continue to increase the amount of user traffic on our portals. Currently, there are other popular portals in Israel and many Israeli Internet users also use international portals, such as Yahoo! and MSN.com. We compete with these other portals, as well as other media, such as television, radio and print, for advertisers.

E-commerce. In 2004 there was extensive activity in the e-commerce market in Israel. The market is principally comprised of large retailers, importers of commercial products and manufacturers offering their own products and services over the Internet through their websites. There currently are very few companies that engage solely in e-commerce. Competition in e-commerce is intense and is likely to grow significantly as the e-commerce market evolves. We cannot guarantee that Gold Trade or MSN Israel will be successful, or that we will be able to compete effectively and succeed in this market.

International Telephony. The international telephony activity is highly competitive. The intense competition and the fact that the customers are generally sophisticated customers with little loyalty, require us to lower the prices for our international telephony services in order to remain competitive. We cannot be sure if this will enable us to remain profitable or how the intense competition will affect us.

Currently, the cellular telephony providers are restricted from providing international telephony services. The Ministry of Communications may grant them or other providers with additional licenses for the operation of international telephony services. We do not know how this will influence the competition in this market or how it will affect our ability to compete.

In addition, as per our license, we have to pay royalties to the Ministry of Communications for our use of frequencies, for operation and registration. The requirement to make royalties payments make it more difficult for us to offer competitive prices to our customers in comparison to unlicensed VOIP operators.

We expect the financial scope of the VoIP market in Israel will decrease in the coming years, as a result of the entrance of new competitors to the market, the cheap prices for the use of VoIP technology in comparison to the analog technology used in the past and because of various Internet software which allow free international communication on the Internet. We cannot evaluate the impact of these expected market changes and their affect on our ability to compete successfully.

Our failure to manage growth effectively could impair our business.

Our growth has placed, and is likely to continue to place, a significant strain on our operational, administrative and financial resources, including our system of internal controls that we have modified or are in the process of modifying to accommodate the expansion of our business. The demand on our network infrastructure, technical and customer support staff and other resources has grown with our expanding subscriber base and is expected to continue to grow as we expand our Internet, international telephony, our portals and our e-commerce business.

We cannot guarantee that our infrastructure, technical and customer support staff, operational and billing systems and other resources will adequately accommodate or facilitate the growth of our business. While we believe we have made adequate allowances for the costs and risks associated with our growth and activities, there is no guarantee that these allowances will be adequate, that our systems, procedures or controls will be sufficient to support our operations or that our management will be able to successfully offer and expand our services in Israel or internationally.

Our strategy may not succeed in the future.

Since the fourth quarter of 2002, the significant increase in demand for broadband was coupled with intense competition between all of the ISPs in Israel, which resulted in price reductions for services offered by all ISPs. Due to this market environment, we adopted a more aggressive marketing policy in order to attract a greater number of broadband customers while continuing to keep tight control on our expenses. This strategy yielded a 54% increase in the number of broadband customers in 2004 as compared to 2003. In order to penetrate the international telephony market and retain customers, we adopted an aggressive approach which included advertising in all media while offering the customers fair prices, which were lower than the prices offered by the then current providers. Although this strategy has been successful to date, we cannot assure you that this strategy will be successful in the future. Due to the price reductions, caused by the aggressive competition as well as the expenses associated with our marketing efforts to attract customers, our profitability may be negatively impacted.

If we do not successfully develop our brands we may be unable to attract enough customers to our services or sufficient traffic to our portals to become successful.

We must establish and strengthen awareness our brands and those of our subsidiaries. If we fail to create and maintain brand awareness, we are unlikely to attract enough customers to our Internet, international telephony and value added services or attract sufficient traffic to our portals to become attractive to advertisers and suppliers of products and services. Brand recognition may become even more important in the future with the growing number of Internet sites and Internet-based communications providers.

We intend to continue to pursue a brand-enhancement strategy, which may include joint marketing programs and mass market and multimedia advertising, promotional programs and public relations activities. These initiatives will involve significant expenses. If our brand enhancement strategy is unsuccessful, our sales and marketing expenses may never be recovered and we may be unable to increase future revenues. Successful positioning of our brand and the other brands associated with each of our services will largely depend on:

- the success of our joint marketing programs, advertising and promotional efforts; and
- our ability to design and maintain attractive, user-friendly portals.

Failure to establish and maintain strategic, marketing and other third-party relationships could limit our ability to attract and retain users.

We have focused on and expect to continue to focus on the establishment of relationships with technology providers, importers of commercial products, retailers and other suppliers of products and services that we may sell. Because our agreements with third parties are generally short-term and non-exclusive, our competitors may seek to use the same partners that we do or attempt to adversely impact our relationships with our partners. In addition, some of our joint marketing agreements are based on oral understandings and not written agreements and so may be terminated at any time. We may not be able to maintain our third-party relationships or replace them on favorable terms. If our relationship partners fail to perform their obligations, reduce their business with us, choose to compete with us or provide their services to a competitor, we may have more difficulty building our subscriber base and attracting and maintaining visitors to our portals, and as a result our business and financial results may suffer. Also, our efforts to establish new relationships in the future may not be successful, which could affect the growth of our business.

There can be no assurance that our investments in cooperation agreements will be successful.

A key element of our strategy is to enter into cooperation agreements. To date, we have entered into various cooperation agreements, including our establishment of MSN Israel with Microsoft Corporation. Our future success depends in part on the ultimate success of these cooperation agreements. The failure of one or more of our key joint venture investments could have a material adverse effect on our business, financial condition and results of operation.

Although we view our joint venture investments as key factors in our overall business strategy, there can be no assurance that the other parties to these agreements view their relationships with us as significant to their ongoing business or that they will not reassess their commitment to us at any time in the future. Our results of operations could be materially adversely affected by changes in the financial condition of a key joint venture participant.

If we lose our key personnel or cannot recruit additional personnel, our business may suffer.

Our success depends, to a significant extent, upon the continuing performance and services of our executive officers and other key employees. Specifically, Eli Holtzman, our chief executive officer, has been with us since our inception and has considerable experience in managing our business. Since we launched our Internet business in 1996, we (excluding our subsidiaries) have expanded from 99 employees as of December 31, 1996 to 835 full-time and part-time employees as of December 31, 2004, including a number of key managerial, marketing, planning, financial, technical and operations personnel. Most of these individuals have not previously worked together and need to be integrated as management and technology teams. As a result, our senior managers and technical personnel may not work together effectively as a team to successfully manage our growth. Our performance is substantially dependent on our ability to retain, motivate and successfully integrate our senior management and other key employees. We do not have “key person” life insurance policies on any of our key personnel.

Network capacity constraints may impede our service to subscribers and require us to expand our network and systems.

Capacity constraints within our network and those of our suppliers have occurred in the past and will likely occur in the future. Such constraints may prevent subscribers from gaining access to our system and system-wide services such as e-mail and news group services and cause subscriber cancellations and adverse publicity.

As the number of our subscribers using broadband services and the amount and type of information they wish to transmit over the Internet increases, we will need to significantly expand and upgrade our technology, processing systems and network infrastructure, which could be expensive and involve substantial management time. We do not know whether we will be able to accurately project the rate or timing of any such increases, or expand and upgrade our systems and infrastructure on time. The operation of broadband services through ADSL and cable technology is affecting our international bandwidth needs. As of March 15, 2005 our international bandwidth infrastructure had grown by 400% from the time we started to provide broadband services. In order to preserve the current service level to an increasing number of broadband customers, we may be required to extend our bandwidth by additional 30% by the end of 2005.

A system failure could interrupt service to our subscribers and may result in subscriber cancellations.

Our business depends on the efficient and uninterrupted operation of our computer and hardware and software systems. In addition, sophisticated information systems are vital to our growth and our ability to monitor costs, bill and receive payments from customers, reduce credit exposure and achieve operating efficiencies. Any system failure that causes an interruption in service or decreases the responsiveness of our network, could impair our reputation, damage our brand name, lead to subscriber dissatisfaction and cancellations and reduce our revenues. Our systems and equipment are subject to hardware defects, software bugs and network failures that may be beyond our control. At times, for example, our systems and equipment have experienced failures, which temporarily prevented customers

from using our services or accessing the Internet. We are currently in the process of replacing our billing and CRM systems and may incur problems in the transition period.

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Our operations depend on our ability to successfully expand our network and integrate new technologies and equipment into our network. Accordingly, we face an increased risk of system failure and difficulty in making new features available.

We use network components located both in Israel and abroad, which must interact successfully without delay or interruption to provide service to subscribers. Our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunications failures, break-ins, sabotage, computer viruses, intentional acts of web vandalism and similar events. Any of these events could expose us to a material risk of loss or litigation. In addition, if a computer virus, sabotage or other failure affecting our system is highly publicized, our reputation could be damaged and subscriber growth and portal visits could decrease. While we currently have partially redundant systems, we do not have full redundancy, a formal disaster recovery plan or alternative providers of hosting services. In addition, we do not carry sufficient natural disaster or business interruption insurance to compensate for losses that could occur.

We depend on third-party systems and service providers for our network to provide our customers with our services.

We rely on certain third-party computer systems, networks and third-party service providers, including local and long distance telecommunications companies such as Bezeq, Bezeq International, Barak, MCI, PCCW-BTN and Med1 for leased lines. All Internet access by our customers is, and will continue to be, connected through leased lines from local and long distance telecommunications carriers.

Internet access by our customers is dependent on the telecommunications infrastructure owned and maintained by Bezeq and the local cable companies. Bezeq has suffered work stoppages on several occasions in recent years as a result of conflicts with its unionized employees. These work stoppages resulted in several days of interruption to the services we provide. In addition, at times Bezeq and the local cable companies have suffered technical network failures. If our subscribers' access to Israel's fixed-line telecommunications infrastructure was disrupted, it would significantly impact the services that we provide to our subscribers and could result in a substantial reduction in Internet access volume and revenue. An increase in our cost of access to Israel's fixed-line telecommunications infrastructure could also adversely impact our results of operations. We also depend on third parties for physical repair and maintenance of leased lines. If an interruption or deterioration in performance in these third-party services occurs, our services may be disrupted or become less profitable.

Many of our relationships with third party providers are terminable upon short notice. In addition, many of our third party suppliers and telecommunications carriers sell or lease products and services to our competitors and may be, or in the future may become, competitors themselves. Subject to various government regulations, our third party suppliers and telecommunications carriers could enter into exclusive arrangements with our competitors or stop selling products and services to us. If any of our arrangements with third parties is terminated, we may not be able to replace them, on commercially reasonable terms, or at all.

Our international telephony services are subject to numerous additional risks, including risks relating to our network.

Our soft switch system is a highly complex computer system. Although it has been built with redundancy in mind, it is built to handle only one fault at a time. Two faults occurring at the same time may severely affect our service.

Also, as the world of voice over IP continues to evolve, we are faced with the risks associated with the use of new software.

Our international telephony service is based upon the operation of our soft switch system. This system is developed and supported by Veraz Networks. Although our engineering staff is highly trained to support the system, there are numerous functions that they are unable to perform by themselves. If the level of service we get from Veraz will decrease, it might adversely impact our ability to properly maintain our system and therefore have direct affect on our service.

We do not have a direct connection to all the destinations around the world, we depend on business partners to connect calls generated from our services by our customers to their final destination worldwide. Our level of service is totally dependent on the level of service we get from our international partners, both from the call completion perspective as well as from call quality perspective. Although we make extensive efforts in order to assure the quality of the calls as well as the world spread of our services, we cannot be sure that our partners will provide adequate level of service, that in such case we will be able to successfully replace the partner or that we will be able to maintain and increase the world spread of our services.

We are neither a local telephone service provider nor a cellular provider, and are dependent on those providers in order to enable our customers to access our service. Therefore we are exposed to any change in their services and in the service level we get from those providers.

If we require additional capital, we may be unable to raise it on favorable terms or at all.

In the future, we may need to raise additional funds in order to fund expansion, develop new or enhanced services, or respond to competitive pressures. The availability of funds for future expansion and the development of new or enhanced services will depend upon a number of factors including our operating performance, investor interest and marketing conditions. If we raise additional funds by issuing equity or convertible debt securities, the holdings of our shareholders will be diluted and their ownership percentage will be reduced. Furthermore, any new securities could have rights, preferences and privileges senior to those of the ordinary shares.

In addition, we may require additional substantial funding in the future to develop and expand the business of MSN Israel. We agreed to invest in MSN Israel and be responsible for its operating losses and capital expenditures. We and Microsoft each has the right to terminate the agreement in case the cumulative losses of MSN Israel reach or exceed \$10 million. Although MSN Israel is currently profitable, we cannot predict what these cost could be. We cannot be certain that additional financing will be available when and to the extent required or that, if available, it will be on acceptable terms. If we do not invest additional funds, if and when required, we shall be in breach of our agreement with Microsoft Corp.

The industry in which we operate is characterized by rapid technological changes and frequent new product and service introductions; we may not be able to keep up with these rapid technological and other changes.

The markets in which we compete are characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, introductions and enhancements and changing consumer demands. These new products, services and technologies may be superior to the services and technologies that we use, and may

render our services and technologies obsolete or require us to incur substantial expenditures to modify or adapt our products, services or technologies. Our future success will depend on our ability to continually improve the performance, features and reliability of our Internet, international telephony and other services in response to competitive service and product offerings and the evolving demands of the marketplace.

Our future success depends on the continued growth in the use of the Internet, international telephony services and other related services in Israel.

We rely on revenues generated from the sale of Internet-access, international telephony, portal advertising and related services, and, to a limited extent, e-commerce. If acceptance and growth of Internet use and services do not occur or Internet use declines, our business and financial results will suffer. Alternatively, if Internet usage grows, the Internet infrastructure may not be able to support the demands placed on it by such growth or its performance or reliability may decline.

We may not achieve broad market acceptance of our services due to concerns about the reliability and security of Internet communications.

The secure transmission of confidential information, such as credit card numbers, over the Internet is essential in maintaining users' confidence in our services. We rely on licensed encryption and authentication technology to securely transmit confidential information, including credit card numbers. It is possible that advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect user transaction data. We incur substantial expenses to protect against and remedy security breaches and their consequences. A party that is able to bypass our security systems could steal proprietary information or cause interruptions in our operations. Security breaches also could damage our reputation and expose us to a risk of loss or litigation and possible liability. Our insurance policies have coverage limits, which may not be adequate to reimburse us for losses caused by security breaches. We cannot guarantee that our security measures will prevent security breaches.

We also face risks associated with security breaches affecting third parties conducting business over the Internet. Users generally are concerned with security and privacy on the Internet and any publicized security problems could inhibit the growth of the Internet and therefore our services, as a means of conducting commercial business transactions.

We face potential liability for information accessed and products and services sold through our portals.

We could become liable for false or misleading information accessed through our portals and for defective products and services sold as part of our business. The potential liability of ISPs and portals such as ours for information accessed through their portals is uncertain. It is possible that claims may be filed against us based on defamation, obscenity, negligence, copyright or trademark infringement or other theories. These types of claims have been brought, sometimes successfully, against providers of Internet services in the past.

Gold Trade and MSN Israel are involved in the sale of products and services by third parties over the Internet (e-commerce). If these products or services were defective or were manufactured or supplied in breach of others' intellectual property rights, Gold Trade and MSN Israel could be liable to customers who purchase these products or services or to the owners of the intellectual property.

Although we attempt to reduce our liability through contractual indemnification from our suppliers and disclaimers, there is no guarantee that we would be successful in protecting ourselves against this type of liability. Even if we ultimately succeeded, legal action against us would divert management time and resources, could be costly and is likely to generate negative publicity for our portals and our business generally. We may also be forced to implement expensive measures to alter the way our services are provided to avoid any further liability.

Inadequate intellectual property protection could prevent us from enforcing or defending our intellectual property.

We have various trademark applications, trade secrets and copyrightable materials, as well as domain names and licenses to use third party software. If we are not successful in protecting our intellectual property, our business and financial results could suffer.

Trademarks. In order to refresh our image, as well as part of our preparations for the provision of international telephony services, we changed our logos and applied for their registration as trademarks in Israel. There is no guarantee that these trademarks will be registered or that we will obtain registration of other trademarks for which we may seek protection in the future.

Domain Names. We currently hold numerous Internet domain names, including the following: “zahav.net.il,” “inter.net.il,” “internet-zahav.net.il,” “zahav.msn.co.il,” “igld.com,” “gold.net.il,” “access.net.il,” “smile.net.il,” “Vgames.co.il” “hicareer.co.il” various other related names. MSN Israel holds the Internet domain names: “msn.co.il,” “start.msn.co.il,” “start.co.il,” “smsn.co.il,” “mediacenter.co.il,” “igold.net.il,” “msn.net.il”, “msnone.net.il,” “msnnews2.co.il,” “msnmobile.co.il,” “hero.co.il,” “ilovemessenger.co.il” and “zahav.ru” and has the right to use the domain name “hotmail.co.il.” Gold holds the Internet domain names: “p1000.co.il,” and “p2000.co.il” and Start holds the Internet Domain name of “msnshops.co.il.” Domain names generally are regulated by Internet regulatory bodies. The regulation of domain names in Israel and other countries is subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. *Licenses.* We have obtained licenses to bundle various third party software products in our front-end configuration software product. We cannot guarantee that renewals of these licenses or any licenses of additional software, which may be required, will be available as needed. While third party licensors have represented to us that they have the right to license such software and in some cases agreed to indemnify us, we cannot guarantee that our use of third party software does not infringe the rights of others. Any infringement claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Risks Relating to Our Relationship with the Eurocom Group

Our principal shareholder owns a controlling interest in our company and is able to exercise significant influence over our business, including ways which may be adverse to our public shareholders.

Our controlling shareholder, Euronet Communications Ltd., holds 68.81% of our ordinary shares. Euronet Communications is a wholly owned subsidiary of Eurocom Communications Ltd., which is a 50.33% owned subsidiary of Eurocom Holdings Ltd. (an additional 0.67% interest is owned by Mr. Shaul Elovitch, our chairman, and the chairman of the board of directors of Eurocom Holdings Ltd.). As a result, Eurocom Communications and Eurocom Holdings will continue to be able to exercise considerable influence over our operations and business strategy and control the outcome of all matters involving shareholder approval, although their holding in us may be diluted following this Offering, including:

- the composition of our board of directors including the appointment and removal of officers;
- mergers or other business combinations involving us;
- acquisitions or dispositions of our assets;

- future issuances of our ordinary shares or other securities;
- our incurrence of debt;
- various agreements, amendments, waivers and modifications to the agreements between us and Eurocom Communications, Eurocom Holdings and their affiliates; and
- payments of dividends on our ordinary shares.

There may be conflicts of interest between our controlling shareholder and us.

Our relationship with Eurocom Communications may eliminate or reduce some opportunities for revenue growth and reducing costs. Eurocom Communications, which indirectly controls us, or its affiliates could prevent us from entering into commercial relationships with third parties, such as its competitors, additionally its competitors may choose not to enter into commercial relationships with us because of our close relationship with Eurocom Communications and its affiliates.

Some of our directors are also directors, officers or employees of Eurocom Communications and own its equity securities. Accordingly, conflicts of interest may arise from time to time between their interests in Eurocom Communications and us particularly with respect to our contractual relationships and the pursuit of overlapping corporate opportunities. We have not adopted any formal plan or arrangement to address such potential conflicts of interest and intend to review related-party transactions with Eurocom Communications or any of its affiliates in accordance with the provisions of the law, on a case-by-case basis.

Because we have interlocking directors with Eurocom Communications, there also may be inherent conflicts of interest when such directors make decisions related to transactions between Eurocom Communications or its affiliates and us. We could lose valuable management input from such conflicted directors and officers.

Risk Related to Our Ordinary Shares

Our share price has been very volatile, and may decline.

The market price of our ordinary shares is likely to be highly volatile and could be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- changes in market valuations of other Internet or online service companies;
- announcements of technological innovations or new services by us or our competitors;

- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us;
- additions or departures of key personnel;
- future sales of our ordinary shares; and
- stock market price and volume fluctuations.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could adversely affect the market price of our ordinary shares.

Our share price could be adversely affected by the sale or the perception that certain shareholders could require us to sell their shares.

Prior to our IPO we granted Euronet Communications and other shareholders, who together hold 69.7% of our ordinary shares, registration rights under the U.S. Securities Act with respect to their shares, giving them rights to:

- include their shares in any registration statement filed by us following our 1999 initial public offering excluding any registration of employees' shares on Form S-8 or a similar form; and
- demand registration of their shares at any time after February 2000, in each case subject to certain conditions.

Following such registration, these shares will be available for sale in the open market. We cannot predict if future sales of our ordinary shares, or the availability of our ordinary shares for sale, will adversely affect the market price of our ordinary shares or our ability to raise capital by offering equity securities.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of Israeli law, our articles of association and the terms of our licenses may have the effect of delaying, preventing or making more difficult a merger or other acquisition of us, even if doing so would be beneficial to our shareholders. Specifically, under the terms of our licenses, any change of control requires the consent of the Israeli Ministry of Communications. In addition, the approval of the General Director of the Israeli Antitrust Authority may be required.

Under our articles of association, directors elected at the annual general meeting of our shareholders are classified into three classes. At each annual general meeting of shareholders, only directors for the class whose term is expiring will be up for election, and upon election such directors will serve a three-year term. The outside directors are not classified into the three classes stated above, and their term of appointment expires as provided by the Israeli Companies Law.

Israeli law regulates mergers, votes required to approve a merger, acquisition of shares through tender offers and transactions involving significant shareholders. Anti-takeover provisions could negatively impact our shareholders. Some of the provisions of Israeli law could:

- discourage potential acquisition proposals;
- delay or prevent a change in control over us; and
- limit the price that investors might be willing to pay in the future for our ordinary shares.

Generally, under Israeli corporate law, a merger must be approved by the board of directors and the shareholders of each of the merging companies. If the share capital of the non-surviving company consists of more than one class of shares, the approval of each class is also required. Further, if the company was incorporated before February 1, 2000, as we were, the approval of the merger requires a majority of 75% of the shareholders present and voting at a meeting, unless such company amends its bylaws to require a different voting requirement. In certain cases, court approval is also required. Under the Companies Law, a merger may be completed only after 70 days have elapsed from the date all the necessary approvals and the merger proposals have been submitted to the Israeli Companies Registrar. The Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or more shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of tender offer if, as a result of the acquisition, the purchaser would become a 45% shareholder of the company, unless someone else already holds a majority of the voting power of the company. The purchase of shares leading to a 90% holding or more requires a full tender offer. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under the Companies Law provide that, generally, these provisions do not apply to companies whose shares are listed for trading outside of Israel in certain stock exchanges. The requirements of Israeli corporate law generally make these forms of acquisition significantly more difficult than under United States corporate laws. Other potential means of acquiring a public Israeli company might involve significant obstacles, such as a requirement for court approval for the acquisition. In addition, a body of case law has not yet developed with respect to the Companies Law. Until this happens, uncertainties will exist regarding its interpretation.

Finally, Israeli tax law treats some acquisitions, particularly stock-for-stock swaps between an Israeli company and a foreign company, less favorably than United States tax law. Israeli tax law may, for instance, subject a shareholder who exchanges his or her shares in us for shares in a foreign corporation to immediate taxation.

These provisions of Israeli corporate and tax law and the uncertainties surrounding such law may have the effect of delaying, preventing or making more difficult a merger or acquisition involving our company. This could prevent a change of control in our company and depress the market price of our ordinary shares that might otherwise rise as a result of such change of control.

Risks Related to Our Debentures (Series A)

We may not be able to make our debt payments in the future.

Our ability to meet our debt obligations will depend on whether we can successfully implement our strategy, as well as on financial, competitive, legal, regulatory and technical factors, including some factors that are beyond our control.

In addition, if we are unable to generate sufficient cash flow from operations to meet principal and interest payments on our debt, we may have to refinance all or part of our indebtedness. Furthermore, cash flows from our operations may be insufficient to repay in full at maturity the Debentures (Series A). Our ability to refinance our indebtedness, including the Notes, will depend on, among other things:

- § Our financial condition at the time,
- § Restrictions in agreements governing our debt and
- § Other factors, including market conditions.

We cannot ensure you that any such refinancing would be possible on terms that we could accept or that we could obtain additional financing. If refinancing will not be possible or if additional financing will not be available, we may have to sell our assets under circumstances that might not yield the highest prices, or default on our debt obligations, including the Debentures (Series A), which would permit the holders of our Debentures (Series A) to accelerate their maturity dates.

Risks Related to Our Operation in Israel

Conducting business in Israel entails special risks.

We are incorporated and based in, and currently derive all our revenues from markets within the State of Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Since September 2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, and acts of terror have been committed inside Israel and against Israeli targets in the West Bank and Gaza. There is no indication as to how long the current hostilities will last or whether there will be any further escalation. Any further escalation in these hostilities or any future armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price. Furthermore, there are a number of countries that restrict business with Israel or Israeli companies. Restrictive laws or policies of those countries directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Many of our executive officers and employees in Israel are obligated to perform up to 36 days, depending on rank and position, of military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

The economic conditions in Israel have not been stable in recent years.

In recent years Israel has gone through a period of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel continue to deteriorate. In addition, due to significant economic measures proposed by the Israeli Government, there have been several general strikes and work stoppages in 2004, affecting all banks, airports and ports. These strikes have had an adverse effect on the Israeli economy and on business, including our ability to deliver products to our customers. Following the passage by the Israeli Parliament of laws to implement the economic measures, the Israeli trade unions have threatened further strikes or work-stoppages, and these may have a material adverse effect on the Israeli economy and on us.

Our business may be impacted by NIS exchange rate fluctuations.

Most of our communications and advertising costs are quoted in U.S. dollars. As of June 13, 2002 we are required by law to state our prices in NIS to our residential and SOHO customers. Furthermore, if we expand our business into other countries, we may earn additional revenue and incur additional expenses in other currencies. We also have U.S. dollar denominated liabilities (rights of use leasing obligations for our international lines). In future periods, our dollar assets (deposits) and our dollar denominated liabilities might commercially serve as partial economic hedge against future exchange rate fluctuations. Because all foreign currencies do not fluctuate in the same manner, we cannot quantify the effect of exchange rate fluctuations on our future financial condition or results of operations.

A substantial devaluation of the NIS in relation to the dollar would substantially increase the cost of our services to Israelis, who pay us in NIS, and is likely to result in subscriber cancellations and a reduction in Internet use and e-commerce in Israel.

Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.

Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger with, or other acquisition of, us. This could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

Your rights and responsibilities as a shareholder will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters.

4. RATIO OF EARNINGS TO FIXED CHARGES**Under IS-GAAP**

	Year ended December 31				
	2000	2001	2002 (in thousands)	2003	2004
Pre-tax earnings (loss) from continuing operations	(71,840)	(13,019)	28,568	17,643	24,389
Fixed charges	13,797	10,857	1,535	878	1,580
Company's share in net loss of investees			(1,530)	(1,538)	(396)
Minority interest in loss of a subsidiary	1	963			
Adjusted pre-tax earnings (loss) from continuing operations	(58,042)	(1,199)	28,573	16,983	25,573
<u>Fixed charges</u>					
Interest charges (1)	13,274	10,129	719	(350)	38
Rental interest factor (2)	523	728	808	1,053	1,447
Interest expense for equity companies whose debt is guaranteed	-	-	8	175	95
Total	13,797	10,857	1,535	878	1,580
Ratio of earnings to fixed charges (3)	-	-	18.61	19.34	16.19

(1) Interest expenses and adjustment of long-term loan and leases - in 2003 we recorded earnings from long-term loans, which were adjusted to the US\$/NIS exchange rate.

(2) Rental interest factor is calculated as one third of the total rent expenses.

(3) Earnings were insufficient to cover fixed charges requirements for the years ended December 31, 2000, 2001, by NIS 71.84 million and NIS 12.06 million, respectively.

Under US-GAAP

	Year ended December 31				
	2000	2001	2002	2003	2004
	(in thousands)				
Pre-tax earnings (loss) from continuing operations	(77,391)	(11,879)	24,633	14,735	23,550
Fixed charges	13,797	10,857	1,545	1,081	1,681
Company's share in net loss of investees					
Minority interest in loss of a subsidiary	6,482	5,647	2,418	2,204	3,312
Adjusted pre-tax earnings (loss) from continuing operations	(57,112)	4,625	28,596	18,020	28,543
<u>Fixed charges</u>					
Interest charges (1)	13,274	10,129	737	28	234
Rental interest factor (2)	523	728	808	1,053	1,447
Interest expense for equity companies whose debt is guaranteed	-	-			
Total	13,797	10,857	1,545	1,081	1,681
Ratio of earning to fixed charges (3)	-	-	18.51	16.67	16.98

(1) Interest expenses and adjustment of long-term loan and leases - in 2003 we recorded earnings from long-term loans, which were adjusted to the US\$/NIS exchange rate.

(2) Rental interest factor is calculated as one third of the total rent expenses.

(3) Earnings were insufficient to cover fixed charges requirements for the years ended December 31, 2000, 2001, by NIS 70.9 million and NIS 6.2 million, respectively.

5. INFORMATION ABOUT THE OFFERING

The securities we are offering under this Prospectus are as follows:

1. 220,000,000 Debentures (Series A) of NIS 1 par value, repayable (principal) in 8 equal annual installments on April 1 of each of the years 2008 to 2015 (inclusive), bearing interest per year as shall be determined in the tender for the Debentures' interest and linked (principal and interest) to the Israeli consumer price index published on March 15, 2005 for February 2005. The interest will be paid every twelve months, on April 1 of each of the years 2006 to 2015 (inclusive). The Debentures are convertible to our ordinary shares on each trade day, as of the day they are registered until March 16, 2015 (inclusive, except for March 17 to April 1 of each of the years 2008 to 2014. The conversion price will be NIS 40 of Debentures per one of our ordinary shares until March 31, 2008, and NIS 50 of Debentures per one of our ordinary shares since April 1, 2008 until March 31, 2015 (all subject to adjustments as specified in section 9.14). Debentures (Series A) which will not be converted into ordinary shares until March 16, 2015 (inclusive) will not grant their holder a right to conversion.
2. 1,500,000 Stock Purchase Warrants (Series 1), registered in the name of their owner, exercised into our ordinary shares of NIS 0.01 par value each, on each trade day as of June 1, 2005 until August 15, 2005 (inclusive). The exercise price will be NIS 32 per one of our ordinary shares, subject to adjustments as specified in section 10.11. Stock Purchase Warrants (Series 1) which will not be exercised into ordinary shares until August 15, 2005 (inclusive) will expire and become void and will not grant their holder any rights.
3. 2,500,000 Stock Purchase Warrants (Series 2), registered in the name of their owner, exercised into our ordinary shares of NIS 0.01 par value each, on each trade day as of June 1, 2005 until October 15, 2007 (inclusive), except for the 12th to the 16th day of each month. The exercise price will be NIS 40 per one of our ordinary shares, linked to the consumer price index, and subject to adjustments as specified in section 10.11. Stock Purchase Warrants (Series 2) which will not be exercised into ordinary shares until October 15, 2007 (inclusive) will expire and become void and will not grant their holder any rights.

The Offering consists of 220,000,000 Debentures (Series A) together with 1,500,000 Stock Purchase Warrants (Series 1) together with 2,500,000 Stock Purchase Warrants (Series 2) offered to the public in 100,000 units (the “Units”) by way of tender over the percentage of the Debentures' interest. The interest for the Debentures will not be higher than 5% (the “Maximal Interest”) and will not be lower than 4% (the “Minimal Interest”)

The composition of every Unit is as follows:

2,200 Debentures (Series A)	NIS 2,200
15 Share Purchase Warrants (Series 1)	at no cost
25 Share Purchase Warrants (Series 2)	at no cost
Total Price Per Unit	NIS 2,200

THIS OFFERING IS BEING MADE EXCLUSIVELY IN ISRAEL TO RESIDENTS OF ISRAEL. NO PERSON IS AUTHORIZED TO MAKE ANY SELLING EFFORTS IN CONNECTION WITH THIS OFFERING IN THE UNITED STATES.

The complete details of the offering appear in pages 33 to 54.

CAPITALIZATION AND INDEBTNESS

The following table sets forth our consolidated capitalization and indebtedness as of December 31, 2004. You should read this table together with our audited consolidated financial statements and related notes incorporated by reference in this Prospectus. There has been no material change in our shareholders' equity and total capitalization since December 31, 2004.

	As of December 31 2004	Convenience translation into US Dollars Consolidated (in thousands)
Shareholders' equity		
Ordinary shares, NIS 0.01 par value (501,000,000 shares authorized; 18,431,500 shares issued and fully paid as at December 31, 2004)		197
		46
Additional paid in capital		215,040
		49,916
Accumulated deficit*		(93,344
)		(21,667
)		121,893
Total shareholders' equity		28,295

* includes capital reserve of NIS 15.7 million (US\$ 3.6 million) from the purchase of investee company from a related party.

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USE OF PROCEEDS

The net proceeds that we will receive from this offering are estimated to be NIS 212.2 million (US \$ 48.6 million) after deduction of the underwriters' fees and commissions and the estimated expenses of the offering.

We intend to use the net proceeds from the offering for general corporate purposes, as shall be from time to time determined by our board of directors.

We have explored and will continue to explore business opportunities and potential investments in the communication field. We believe that, the proceeds from the offering will enable us to take advantage of structural changes in Israel's communications marketplace, giving rise to opportunities for us to increase our share in the markets in which we are currently active and to enter new markets. However, we cannot be sure whether any of these opportunities will become actual.

THE OFFER AND LISTING**Offer and Listing Details**

The following table sets forth, for each of the periods indicated, the range of high and low closing prices of our ordinary shares on the Nasdaq SmallCap Market, and since February 2005 - on the Nasdaq National Market:

Year		High		Low
2004	\$	6.44	\$	3.78
2003		6.96		1.19
2002		1.80		0.87
2001		2.94		0.54
2000		30.00		1.28

2004

First Quarter	\$	5.23	\$	3.78
Second Quarter		6.06		4.56
Third Quarter.		4.91		4.07
Fourth Quarter		6.44		4.10

2003

First Quarter	\$	4.06	\$	1.19
Second Quarter		6.05		2.84
Third Quarter		6.96		3.85
Fourth Quarter		4.48		3.34

2002

First Quarter.	\$	1.80	\$	0.96
Second Quarter		1.25		1.01
Third Quarter		1.09		0.95
Fourth Quarter		1.29		0.87

Each Month Since May 2004

<u>2005</u>				
February 2005	\$	7.79	\$	5.27
January 2005		5.71		4.96

Year	High	Low
2004		
December 2004	\$ 6.44	\$ 4.98
November 2004	6.43	4.10
October 2004	4.77	4.20
September 2004	4.81	4.30
August 2004	4.45	4.07
July 2004	4.91	4.18
June 2004	5.28	4.56

Plan of Distribution

This offering is being underwritten by the following leading underwriters:

Name of Underwriter	Address
Poalim I.B.I - Managing & Underwriting Ltd.	Shalom Tower, 9 Ehad Ha'Am Street, Tel-Aviv 65251
Apex Underwriting Ltd.	2 Kaufman Street, Tel Aviv 68012

In addition to the leading underwriters, there are additional 27 underwriters who are participating as members of the underwriters group. For details see Chapter 17.

To the extent known to us, major shareholders, directors or members of our management do not intend to subscribe in the offering at all or for more than 5% of the Offering. Our "Interested Parties" (as such term is defined in the Israeli Companies Law) undertook not to purchase any of the Units offered to the public in this Prospectus.

Institutional Investors undertook to purchase 80% of the Units offered in this Prospectus. For further information please see section 5.10.

The terms of the Underwriting Agreement are specified in Chapter 17. Each of the leading underwriters undertakes to guarantee the purchase of Units, severally, as follows:

Name of Underwriter	No. of Units
Poalim I.B.I - Managing & Underwriting Ltd.	5,000
Apex Underwriting Ltd.	5,000

The other underwriters also undertake to guarantee the purchase of Units, severally - for details see chapter 17.

The underwriters are committed to take and pay for any securities not purchased by the public under the Offering, except for securities that the institutional investors undertook to purchase.

Markets

Our ordinary shares trade on the Nasdaq National Market under the symbol IGLD and, since March 1, 2005, also on the Tel Aviv Stock Exchange, or TASE, under the symbol " " "

Dilution

The following table set forth the direct holdings of our shares by our 5% or more shareholders and of our directors, as of the date of the offering:

Name of Holder	Holdings prior to the offering		Holdings following the offering			
	No. of shares	Percentage	Following exercise of Share Purchase Warrants (Series 1)	Following exercise of Share Purchase Warrants (Series 2)	Following conversion of the Debentures (Series A) ¹	On a fully diluted basis ²
Euronet Communications Ltd. ³	12,683,135	68.81%	63.63%	60.59%	53%	45.41%
Eli Holtzman	172,118	0.93%	0.86%	0.82%	0.72%	0.62%

Expense of the Offering

The amount of all the underwriting, management and distribution commissions as well as other expenses related to the offering, including commissions to institutional investors, are estimated to be approximately 3.6% of the immediate gross proceeds of the offering. (approximately NIS 0.036 per Debenture (Series A)).

¹ Assuming that all the Debentures (Series A) are converted into shares at the price of NIS_40 per share.

² Assuming that the offered Stock Purchase Warrants are exercised and that all the Debentures (Series A) are converted into shares at the price of NIS 40 per share.

³ Messrs. Shaul Elovitch, chairman of our board of directors, and his brother, Yossef Elovitch, a director of our company, own 100% of Eurocom Holdings Ltd., an Israeli holding company that holds a controlling interest 50.33% in Eurocom Communications Ltd. (Mr. Shaul Elovitch holds an additional 0.67% interest in Eurocom Communications). Eurocom Communications, an Israeli company, owns a 100% interest in Euronet Communication Ltd., an Israeli company that directly owns 12,683,135 of our ordinary shares. Due to their ownership of Eurocom Holdings and their positions as directors of Eurocom Holdings and Eurocom Communications, they may be deemed to beneficially own the ordinary shares directly held by Euronet Communications. Messrs. Shaul Elovitch and Yossef Elovitch disclaim beneficial ownership of such ordinary shares.

CHAPTER 5: THE PUBLIC OFFERING

5.1. The securities to be offered

5.1.1. 220,000,000 registered debentures (series A) of NIS 1 par value each, repayable in 8 equal annual installments on April 1st of each of the years 2208 to 2015, bearing annual interest at a rate to be determined in the Tender, which shall not exceed 5% and not be less than 4%. Principal and interest shall be linked to the consumer price index published in respect of February 2005. Interest on the debentures (series A) will be paid in annual installments on April 1st of each of the years 2006 to 2015.

The debentures (series A) are convertible into ordinary shares on any trading day commencing on the date of their registration on the TASE, until March 16, 2005 (inclusive), with the exception of March 17th to April 1st of each of the years 2008 to 2014, so that by March 31st 2008, every NIS 40 par value of debentures (series A) not repaid can be converted to one ordinary share of NIS 0.01 par value of the Company, and from April 1st 2008 every NIS 50 par value of debentures (series A) not repaid can be converted to one ordinary share of NIS 0.01 par value of the Company (subject to adjustments as set out in Section 9.14 below). For debentures (series A) not converted by March 16th 2015, no right will be granted to their holders to convert them to shares of the Company.

5.1.2. 1,500,000 registered warrants (series 1) exercisable into ordinary shares of the Company on any trading day commencing June 1st 2005 until August 15th 2005. Each warrant (series 1) can be converted into one ordinary share of NIS 1 par value of the Company against payment in cash of an exercise price of NIS 32 (subject to adjustments as set out in Section 10.11 of the Prospectus). A warrant (series 1) that has not been exercised by August 15th 2005 will expire and be void, and shall not grant its holder any right in respect to the Company.

5.1.3. 2,500,000 registered warrants (series 2) exercisable into ordinary shares of the Company on any trading day commencing June 1st 2005 until August 15th 2007, except from the 12th to the 16th of each month. Each warrant (series 2) can be converted into one ordinary share of NIS 0.01 par value of the Company against payment in cash of an exercise price of NIS 40 linked to the consumer price index published in respect of February 2005 (subject to adjustments as set out in Section 10.11 of the Prospectus). A warrant (series 2) that has not been exercised by August 15th 2007 will expire and will be void, and shall not grant its holder any right in respect to the Company.

5.2. The principal rights conferred by the securities offered to the public

The terms of the debentures (series A) payable and convertible into ordinary shares of NIS 0.01 par value of the Company are described in Chapter 9 hereinafter.

The terms of the warrants (series 1) and the warrants (series 2) are described in Chapter 10 hereinafter.

Concerning the rights associated with the shares of the Company, see Chapter 12 hereinafter.

5.3. Details of the public offering

220,000,000 debentures (series A) together with 1,500,000 warrants (series 1) and 2,500,000 warrants (series 2) are being offered to the public in 100,000 units (hereinafter "the Units") by way of a Tender on the interest rate in respect of the debentures (series A). The interest in respect of the debentures (series A) shall not exceed 5% (hereinafter - "the Maximum Interest Rate") and shall not be less than 4% (hereinafter - "the Minimum Interest Rate").

The composition of a Unit is as follows:

2,200 debentures (series A)	NIS 2,200
15 warrants (series 1)	Free of charge
25 warrants (series 2)	Free of charge
Total Unit price	NIS 2,200

The Tender will be held on April 7, 2005.

5.3.1. Provisions relating to the Tender

5.3.1.1. List of subscriptions

The list of subscriptions for the Units offered to the public will open on April 7, 2005 at 08:30 (hereinafter - "the Date of the Tender ") and will close on the same day at 15:00 (hereinafter: "the Subscription List Closing Time").

5.3.1.2. Applying to purchase Units

Applications to purchase the Units offered to the public in the Tender shall be submitted to the Company on forms that can be obtained from members of the TASE through the Offering Coordinator, Poalim I.B.I. Underwriting & Issuances Ltd. (hereinafter - "the Offering Coordinator") or from any bank branch or other members of the TASE (hereinafter - "the Official Application recipients"), no later than at 15:00 on the Date of the Tender. The Company will not accept any application reaching the Official Application Recipients after 15:00 on the Date of the Tender: it will be considered not to have been submitted.

Applications shall be submitted in closed envelopes to the Offering Coordinator by the Official Application Recipients no later than at 16:30 on the Date of the Tender. The Offering Coordinator shall put them (including applications submitted through the Offering Coordinator) in a closed box by 16:30 as aforesaid. The Company will not accept any application arriving to the Offering Coordinator after 16:30 on the Date of the Tender. It will be considered not to have been submitted.

The applications will be submitted on the following terms:

- (1) In the application the applicant will state the number of Units he wishes to purchase and the interest rate he proposes, which shall not exceed the Maximum Interest Rate and shall not be less than the Minimum Interest Rate. An application in which the proposed interest rate is higher than the Maximum Interest rate will not be accepted. An application in which the proposed interest rate is less than the Minimum Interest Rate will be deemed to have been submitted at the Minimum Interest Rate. _

- (2) Applications will be for whole Units only, and cannot be for less than one Unit. Any application which is not a whole Unit shall be rounded down to the nearest whole Unit, and the fraction of a Unit will be included in the application will be deemed not included therein from the outset. Any application stating a number of Units that is less than one shall not be accepted.
- (3) Each applicant may submit up to three applications in the Tender at different interest rates.
- (4) The interest rates proposed in the Tender shall be stated at intervals of 0.1% or multiples of that rate, hence the first rate at which Units can be ordered above the Minimum Interest Rate is 4.1%. Thereafter Units can be ordered at 4.2%, 4.3%, 4.4% and so on up to 5% interest, which is the Maximum Interest Rate. A proposal not cited in intervals of 0.1% shall be rounded down to the nearest interval.
- (5) No single applicant may order more than 25% of the total number of Units offered, i.e. 25,000 Units, in all the applications submitted - up to three as aforesaid. If an applicant applies for more than 25% of the total Units offered, the total applications shall be deemed as being for 25,000 Units only (hereinafter - "the Maximum Number of Units"), as follows:
- (a) First the Units stated in the application at the lowest interest rate per Unit shall be taken into account, up to the Maximum Number of Units (hereinafter - "the First Application");
- (b) If the number of Units stated in the First Application is less than the maximum Number of Units, additional Units from the application stating the lowest interest rate per Unit from among the remaining applications will be taken into account (hereinafter - "the Second Application"), up to 25,000 Units, cumulative.
- (c) If the number of Units stated in the First Application and the Second Application is less than the Maximum Number of Units, additional Units from the third, remaining, application will be taken into account, up to the Maximum Number of Units, cumulative.
- (6) The applications to purchase are irrevocable. Every applicant shall be considered to have undertaken to accept the securities that will be allotted as a result of complete or partial response to his application, in accordance with the terms of this Prospectus, and to have undertaken to pay through the Offering Coordinator the full price, in accordance with the terms of this Prospectus, of the Units to be allotted to him in response to his application.

- (7) The Official Application Recipients are responsible and obligated towards the Company, towards the Offering Coordinator and towards the Underwriters, as the case may be, for full payment of the consideration payable to the Company under the terms of the Prospectus in respect of applications submitted through them and which are accepted, in whole or in part.
- (8) "Applicant" in this Prospectus - together with a relative residing with him, encompasses an institutional investor with which the Company has made an agreement to purchase Units under this Prospectus, as provided in Section 5.10 below.
- (9) Parties related to the Company may not apply to purchase the Units offered to the public in the Tender.

5.3.2. Setting the price of the offering in the Tender and allotments to the applicants

All the Units for which applications to purchase are accepted will be issued at a uniform Unit price, to be determined as follows:

- 5.3.2.1. All the Units offered to the public for which applications are accepted, shall be issued to their applicants at a uniform interest rate (hereinafter - "the Uniform Interest Rate"). The Uniform Interest Rate will be determined by Tender in the following manner:

If the total number of Units stated in the applications accepted in the Tender, including the Units in applications received from institutional investors, is less than the total number of Units offered to the public pursuant to this Prospectus, then all the applications will be accepted in full, subject to minimum distribution as described in Section 5.5.2.1 below. In this case, the Uniform Interest Rate will be the Maximum Interest Rate and the balance of the Units not purchased in the Tender, net of the Units for which prior undertakings to purchase are received from institutional investors, will be purchased by the Underwriters at the Maximum Interest Rate.

- 5.3.2.2. If the total number of Units stated in the applications accepted in the Tender, including the Units included in purchase applications received from institutional investors, is equal to or more than the total number of Units offered to the public under this Prospectus, all the offered Units will be issued at the Uniform Interest Rate, which will be the lowest interest rate at which and/or a lower interest rate, applications were submitted in the Tender to purchase all the Units offered, and the allotment of the Units offered in the Tender will be effected as follows:

- (1) Applications stating an interest rate that is higher than the Uniform Interest Rate - will not be accepted.
- (2) Applications stating an interest rate that is lower than the Uniform Interest Rate - will be accepted in full.
- (3) Applications stating a Unit price equal to the Uniform Interest Rate will be accepted proportionally, so that each applicant will receive, out of the Units remaining for distribution, if any remain, after the allotment in respect of applications stating an interest rate lower than the Uniform Interest Rate and net of the part of the institutional investors as provided in Section 5.10 below, a part equal to the ratio of the number of Units he ordered in the application in which he stated the Uniform Interest Rate, to the total number of Units in all the applications stating the Uniform Interest Rate, net of the Units which were allotted to institutional investors.
- (4) Notwithstanding the aforesaid, if allotment of the Units as described above means that minimum distribution of the debentures (series A) will not be achieved, as set forth in Section 5.5.2.1 below, then allotment of the Units will be effected as described in sub-sections (1) - (3) above but the Units to the institutional investors who submitted applications at the Uniform Interest Rate shall be allotted in the same manner as the allotment to the public.
- (5) Notwithstanding the provisions of sub-section (4) above, should it transpire after processing and arriving at the results as aforesaid, that minimum distribution of the debentures (series 1) set forth in Section 5.5.2.1 below is not achieved, the Company will allot to every applicant at the Uniform Interest Rate, including the institutional investors and those who ordered at an interest rate lower than the Uniform Interest Rate, a proportional part of his order equal to the product of the total units offered to the public at the ratio of the number of Units he ordered to the total number of Units order by applicants, including institutional investors, at the Uniform Interest Rate as aforesaid and/or at a lower interest rate. Applications ordering at an interest rate higher than the Uniform Interest Rate will not be accepted.
- (6) Notwithstanding the aforesaid, if the allotment as provided in sub-section (5) also does not achieve minimum distribution of the debentures (series A) as provided in Section 5.5.2.1 below, then the distribution of the Units will be effected as follows:

A new allotment will be made, including to the institutional investors, for determining a new Uniform Interest Rate that shall not be less than the Minimum Interest Rate and that shall be the lowest interest rate at which all the securities offered under this Prospectus can be allotted in a way that will achieve minimum distribution of the debentures (series A) as set forth in Section 5.5.2.1 below, provided that the number of Units allotted to an applicant will not be more than ordered or at a lower interest rate that stated in the application ("the new Uniform Interest Rate").

The allotment at the New Uniform Interest Rate will be effected as provided in sub-section (5) above, where the "New Uniform Interest Rate" will serve, for this matter, as the "Uniform Interest Rate". Applications that proposed an interest rate higher than the New Uniform Interest Rate will not be accepted.

- (7) If after re-processing the results as described in sub-section (6) above, minimum distribution of the debentures (series A) offered under this Prospectus as set forth in Section 5.5.2.1 below is not achieved, the offered securities will not be registered for trading. In this case, the offered securities will not be allotted to the public, the consideration will not be collected from the applicants and the offering pursuant to this Prospectus will be cancelled.
- (8) In any case where the implementation of any of the allotment methods described above necessitates the allotment of fractions of Units, adjustment will be made in the manner of allotment so that the number of Units allotted to each applicant will be rounded to the nearest whole number. The balance that is created as a result of this rounding will be allotted to the Offering Coordinator at the Uniform Interest Rate or the New Uniform Interest Rate, as the case may be.
- (9) In the event of over-subscription, the Company may determine how fractions will be treated by purchase of the remainder by the Offering Coordinator, so as to remain with the smallest possible number of fractions.

5.3.3. Special account

- 5.3.3.1. A short time prior to the Date of the Tender, the Offering Coordinator will open a special interest-bearing trust in the name of the Company, at its own company or at another banking corporation ("the Special Account"). The Special Account will be managed by the Offering Coordinator in the name of and on behalf of the Company, in accordance with the Securities Law, 5728-1968.

- 5.3.3.2. The monies received in respect of the Units for which purchase applications were accepted in whole or in part and for which the purchase applications were submitted by means of the Official Application Recipients, will be transferred to the Special Account, in accordance with the provisions of the Prospectus.
- 5.3.3.3. On the first trading day after the Date of the Tender, the Official Application Recipients through whom the submitted applications were accepted in whole or in part will deposit in the Special Account, by 12:30, the full consideration payable from them for the Units for which applications were accepted as provided in Section 5.3.2 above.
- 5.3.3.4. After the subscription list for the securities offered under this Prospectus in the Tender is closed, if it transpires that all the Units offered by the Company in the Tender have been purchased and the minimum distribution requirements as set forth in Section 5.5.2.1 below have been met, the Offering Coordinator will transfer to the Company, no later than the end of the second trading day after the Date of the Tender, after receipt of the letters of allotment referred to in Section 5.4 below, all the amounts received in the Special Account plus the yields on the investment accrued in respect thereof, if accrued, and net of the amounts payable under the underwriting agreement, which will be paid to the parties entitled to them under the underwriting agreement.
- 5.3.3.5. If it transpires that the minimum distribution requirements for the debentures (series A) as provided in Section 5.5.2.1 below have not been met, then the offering under this Prospectus will be cancelled, the offered securities will not be registered for trade and the consideration will not be collected from the applicants.

5.3.4. The Tender process

Applications for the Tender shall be delivered to the Offering Coordinator by the Official Application Recipients by 16:30 on the Date of the Tender, in closed envelopes, which shall remain closed until the deadline for receipt of applications. The Offering Coordinator will put them in a closed box together with the applications that it received directly.

After 16:30 on the Date of the Tender, the closed box will be opened and the envelopes will be opened in the presence of the Company's auditor, who will oversee the proper implementation of the Tender proceedings, and the results of the Tender will be collated and processed.

5.3.5. The results of the Tender

- 5.3.5.1. By 10:00 on the first trading day after the Date of the Tender, the Offering Coordinator will deliver, through the Official Application Recipients who submitted applications in the Tender, notices to the applicants whose applications were accepted in whole or in part. The notice shall state the interest rate determined in the Tender, the number of Units to be allotted to the applicant and the consideration owed for the Units. Upon receipt of the notice, by 12:30 on the same day, the applicants will transfer the full consideration payable by them in respect of the Units for which they submitted their order to the Offering Coordinator, through the Official Application Recipients.

- 5.3.5.2. On the first trading day after the Date of the Tender the Company will advise the Tel Aviv Stock Exchange, in an immediate report, of the results of the Tender, and within two additional trading days thereafter, notice thereof will be published in two daily newspapers of wide circulation published in Hebrew in Israel.
- 5.3.5.3. No later than on the second trading day after the Date of the Tender, subject to fulfillment of the terms of the minimum distribution enabling the securities to be listed on the TASE as provided in Section 5.5.2.1 below, and after the Offering Coordinator has received for the Nominees Company of Bank Hapoalim B.M. ("the Nominees Company") letters of allotment in respect of the securities purchased by the public, the Offering Coordinator will pay the Underwriters, from the Special Account, the amounts due to them according to the underwriting agreement, as set forth in Chapter 17 below, subject to fulfillment of their undertakings pursuant to the underwriting agreement.

5.4. Letters of allotment

If an application is accepted, the Company will allot the securities for which the application was accepted and for which the consideration has been paid in full to the Nominees Company. Letters of allotment in respect of these securities will be sent to the Nominees Company no later than the second trading day after the Date of the Tender, provided that the allotment is not made before the Offering Coordinator has ascertained that the minimum distribution requirements as provided in Section 5.5.2.1 below have been met.

The letters of allotment can be transferred, split or waived in favor of others, subject to filling out a deed of transfer or split or waiver and its delivery, together with the letter of allotment, to the Company and subject to payment by the applicant of the expenses, taxes and levies involved therein, including stamp tax and other levies, if any.

Written on the letter of allotment of the warrants will be that they and the shares underlying their exercise are not registered in accordance with the U.S. Securities Act and that a warrant cannot be exercised by or for "U.S. Persons" unless they are registered in accordance with the U.S. Securities Act or unless an exemption from the registration requirements of the U.S. Securities Act exists. The letter of allotment will also note that upon submitting the application to exercise the warrants, each applicant will declare, in writing, that he is not a U.S. person and that he is not exercising the options for a U.S. person. On this matter, see page 1 of the Prospectus.

5.5. Listing on the TASE

- 5.5.1. All the debentures (series A) and the shares underlying conversion of the debentures (series A), the warrants (series 1) and the warrants (series 2) and the shares underlying exercise of the warrants, are to be registered on the TASE, and this has been approved by the TASE. Within three business days of the Date of the Tender, the Company will contact the TASE to request the registration of the above securities for trading.

5.5.2. Registration of the securities on the TASE is contingent upon minimum distribution of the debentures (series A), as this term is defined in the TASE Guidelines, as set forth in Section 5.2.2.1 below.

5.5.2.1. According to the TASE Guidelines, minimum distribution is achieved upon fulfillment of the following conditions:

Type of security	Minimum number of holders	Minimum holding value per holder
Debentures (series A)	100	NIS 16,000

"Holder" is defined as a single holder, the value of whose holdings exceeds the value of the minimum holding per holder as set out above, or a holder together with others whose joint holdings exceed the value of the minimum holding per holder as aforesaid.

5.5.2.2. If when the Tender results are final it becomes apparent that the terms of Section 5.5.2.1 above have not been met, then the Offering will be cancelled. In such event the Company shall give notice thereof in an immediate report to the Securities Authority, and will publish notice of the cancellation of the offering the following day in two daily newspapers of wide circulation in Israel in Hebrew.

5.6. No arrangements not written in the Prospectus may be made

5.6.1. By signing this Prospectus, the Company, the directors and the Underwriters undertake to refrain from making arrangements which are not written in the Prospectus in connection with the offer of securities or their distribution to the public, and undertake to refrain from extending any right to the buyers of the securities under this Prospectus to sell the securities they purchased except as set out in the Prospectus.

- 5.6.2. By signing this Prospectus, the Company, the directors and the Underwriters undertake to notify the Securities Authority of any arrangement known to them with any third party that contradicts the undertaking described in Section 5.6.1. above.
- 5.6.3. By signing this Prospectus, the Company, the directors and the Underwriters undertake to refrain from entering into an agreement with any third party which, to the best of their knowledge, has made arrangements contravening the provision of Section 5.6.1 above.
- 5.6.4. On the date of publication of this Prospectus, the Company submitted to the Securities Authority an undertaking signed by the interested parties in the Company by virtue of their holdings, whereunder said interested parties have undertaken to act as provided in Sections 5.6.1 to 5.6.3 above.
- 5.6.5. The Company, the directors and the Underwriters will not accept orders for securities from this offering from a distributor who does not undertake, in writing, to act in accordance with the provisions of this Section 5.6. The Company and the Underwriters will submit to the Securities Authority copies of the letters of undertaking from the Official Application Recipients as aforesaid.

5.7. No dilution of equity

In the period commencing on the date of publication of the Prospectus and until the allotment of the securities under this Prospectus, the Company will not take any action which constitutes dilution of equity as defined in the Securities Regulations (Details of the prospectus, its structure and form), 5729-1969.

5.8. Debentures (series A) certificates and letters of allotment for the warrants

The certificates in respect of the debentures (series A) offered under this Prospectus will be ready for delivery to those entitled to them at the registered office of the Company, no later than at the end of three months from the date of the listing of the securities of the Company on the TASE, and they will be delivered against the return of the letters of allotment to the Company.

The Company will not issue warrant certificates. Possession of warrants shall be by means of allotment letters.

5.9. Taxation on the securities

- 5.9.1. Capital gain tax from selling the securities offered in this Prospectus (hereinafter - "Securities Offered in the Prospectus").

Real capital gain from the sale of securities traded on the TASE, including Securities Offered in the Prospectus, by any individual or group for whom the income from the sale of the securities is not interest from a business, and to whom the provisions of Section 6 of the Adjustments for Inflation Law (hereinafter - "the Adjustments Law") or the provisions of Section 130A of the Income Tax Ordinance (New Version), 5721-1961 (hereinafter - "the Income Tax Ordinance" or "the Ordinance") do not apply, shall be liable for 15% tax, provided that the holder of the securities has not claimed interest and linkage differential expenses for the securities and the sale of the securities was not made to a relative, as defined in Section 105K of the Income Tax Ordinance.

A taxpayer to whom Section 6 of the Adjustments Law or the provisions of Section 130A of the Income Tax Ordinance do not apply in determining income, and whose income does not constitute income from a business, but who sold to a relative and/or who claimed deduction of financing expenses for Securities Offered in the Prospectus, will be liable for 25% tax on his real capital gain.

A group of persons exempt from tax pursuant to Section 9(2), including provident funds, of the Income Tax Ordinance, will be exempt from tax in respect of the real capital gain from sale of Securities Offered in the Prospectus.

An exempt mutual fund will be fully exempt from on capital gains generated from the sale of Securities Offered in the Prospectus.

As a rule, the tax that would be applicable to such profits or income if received by an individual whose income does not originate from a business or from his profession, will apply to the income of a taxable mutual fund.

A foreign resident, as defined in the Ordinance and its Regulations (hereinafter - "Foreign Resident") is exempt from tax on capital gains in the sale of securities traded on the TASE, if the capital gain does not originate from permanent work in Israel.

A Foreign Resident group of persons will not be entitled to this exemption if residents of Israel are the controlling interest in it or are entitled to 25% or more of the income or profits of a Foreign Resident, directly or indirectly.

For the purpose of computing the capital gain from the sale of a share, the source of which is a warrant (series 1 and series 2) that was converted to a share, the original price of the warrant will be considered "the original price" and the exercise addition paid for the exercise to a share will be considered "enhancement expenses" (as defined in Section 88 of the Income Tax Ordinance) and the date of purchase of the options warrant will be considered the "date of purchase" of the shares.

In the event of conversion of the debentures to shares, the original price of the debentures will be seen as the original price and the payment made for its conversion to a share will be seen as the enhancement expenses.

Until the end of 2006, 15% of the amount of capital loss caused by selling the offered securities, if any, by an individual or a group of persons to which the provisions of Section 6 of the Adjustments Law or the provisions of Section 130A of the Ordinance do not apply in determining their income and of which the income from sale of the securities does not constitute income from a business, can be offset against the tax applicable to real gains from securities (as defined in Section 105K of the Ordinance) which are not foreign securities and from special transactions in mutual funds that are traded on the Stock Exchange in Israel.

Starting in the 2007 tax year, taxpayers may offset the loss from sale of the offered securities as aforesaid, against the tax applicable to capital gains from the sale of securities, futures transactions and units in mutual funds - whether traded on the stock exchange in Israel or traded outside Israel, and may offset the loss against the tax applicable to interest income and dividend arising from the securities as aforesaid.

As noted, the aforementioned reduced tax rates will not apply to taxpayers whose income from the sale of securities constitutes income from a "business" pursuant to the provisions of Section 2(1) of the Income Tax Ordinance, or to taxpayers to whom the computation of their taxable income the provisions of the Income Tax Regulations (Rules concerning the management of books of account of companies in overseas investments and of certain partnerships, and determination of their taxable income), 5744-1984 (hereinafter - "the Dollar Regulations") apply.

With respect to companies to which the provisions of Chapter B of the Adjustments Law or the Dollar Regulations apply in determining their taxable income, capital gains from the sale of the securities offered under this Prospectus will be taxed at the rate applicable to companies, in accordance with the provisions laid down in Section 126 of the Income Tax Ordinance (2005 - 34%, 2006 - 32%, 2007 - 30%). With respect to individuals to whom the provisions of Chapter B of the Adjustments Law apply, or whose income is income from a business - the capital gain will be taxed according to brackets in accordance with Section 121 of the Ordinance (today - up to 49%).

Under the provisions of Section 6 of the Adjustments Law, a real loss from the sale of traded securities will be offset against a real capital gain from traded securities only. Nevertheless, for a financial institution as defined in Section 22 of the Adjustments Law, whose income from the sale of securities would have been income from a business according to the Income Tax Ordinance if not for that section, the real loss from the sale of the securities will be deemed to be loss from a business.

5.9.1.1. Taxation of income from a dividend on shares originating from the conversion of debentures or options

The tax on a dividend originating from the offered securities will be 25% for an individual resident of Israel, 0% for a company residing in Israel, and 25% for a foreign resident, or in accordance with the provisions of a treaty preventing double taxation between the State of Israel and the country of residence of that Foreign Resident (subject to receipt of approval from the tax authorities).

A group of persons including provident funds that is exempt from tax under Section 9(2) of the Income Tax Ordinance, will be exempt from tax for the dividend.

An exempt mutual fund will be exempt from tax on dividends it receives from a shareholding.

As a rule, the tax that would be applicable to such profits or income if they were received by an individual whose income is not income from a business or from his profession, will apply to the income of a taxable mutual fund.

Notwithstanding the above, tax on a dividend originating from an approved enterprise sharing income, as defined in the Capital Investment Encouragement Law, will be 15% for an individual, a company resident of Israel, a taxable mutual fund and a Foreign Resident (subject to the tax treaty referred to above). A mixed mutual fund and a mutual fund will be exempt from tax on dividends originating from the income of an approved enterprise.

5.9.2. Taxation of income from interest and debenture discount fees

5.9.2.1. Taxation of interest income from debentures (series A)

Income from interest, including discount fees, paid on debentures (series A) offered under the Prospectus, to an individual, will be taxed at 15%, provided that the individual is not the controlling interest in the company paying the interest, that the individual does not claim interest expenses and linkage differentials in respect of the debentures and provided that the interest income of the individual is not classified as income from a business according to Section 2(1) of the Income Tax Ordinance, is not recorded in his books, and is not required to be so recorded. In any case where one of the above conditions does not obtain, Section 125(c)A of the Income Tax Ordinance provides that the interest income and discount fees will be taxed at the rates set in Section 121 of the Income Tax Ordinance and that such income will be seen as the highest level on the scale of the individual's taxable income.

A taxable mutual fund will be liable for 15% tax on interest income and discount fees originating from the debentures.

A mixed mutual fund and an exempt mutual fund, as well as entities to which the provisions of Section 9(2) of the Income Tax Ordinance apply, will be exempt from tax on interest income and discount fees, the source of which is the debentures, subject to the provisions of Section 3(h) of the Income Tax Ordinance.

Corporate tax (34% in 2005, 32% in 2006 and 30% in 2007 onwards) will be imposed on interest income and discount fees generated by a group of persons.

For a Foreign Resident who is not entitled to the reduced tax rates applicable to the interest income as aforesaid, interest income will be taxed in Israel at 25%.

An individual or group of persons who are Foreign Residents might be eligible for lower tax than the rates described above, by virtue of a treaty for the prevention of double taxation signed between the State of Israel and his/its country of residence (subject to receipt of approval from the tax authorities in Israel).

When redeeming a debenture that includes payment of discount fees, as determined on the date of issue of the debentures, the discount fees will be deemed interest income received by the holder of the debenture on the date of redemption.

However, pursuant to Article 3 of the Income Tax Regulations (Calculation of capital gain in the sale of a security traded on the stock exchange or a unit in a mutual fund), 5763-2002, redemption of a debenture, state loan or short-term loan (in this Article - the Debentures) in which discount fees are also paid, the consideration plus the discount fees will be deemed to be consideration of the redemption if all of these exist:

- (1) The capital gain from selling the Debenture is not exempt from tax at the date of the redemption on which the capital loss was generated
- (2) The redemption is not by a controlling interest or by whoever has held the Debenture since the date of its allotment or issue

- (3) Discount fees seen as consideration according to the provisions of the aforementioned Article 3 will not be deemed to be income originating from interest, provided that it does not exceed the capital loss.

The Company intends to book the consideration from the offering in its balance sheet under securities offered according to their relative value, which will be determined according to the average value of each of the offered securities in the first three days of trading, and the Company will notify the TASE on the fourth day of trading of the discount rate. The discount generated in respect of the debentures offered under this Prospectus, which is required in order to determine the discount on the date of the offering as aforesaid, will be determined according to the difference between the liability value of the debentures and the portion of the proceeds from the offering that is attributed to the securities, as aforesaid.

5.9.2.2. Withholdings

(1) Interest and discount fees

Article 5 of the Income Tax Regulations (Deduction from interest), 5763-2002 (hereinafter - "the Withholding from Interest Regulations"), provide that an obligor who pays interest to an individual who does not hold control, including discount fees, on debentures traded on the Stock Exchange in Israel, will withhold 15% tax from the payment, and that an obligor who pays interest to an individual who has control as aforesaid, will withhold 50% tax from the payment.

Article 6 of the Withholding from Interest Regulations provides that an obligor who pays interest to a group of persons that is not a Foreign Resident will withhold 35% tax from the payment.

Article 8 of the Withholding from Interest Regulations provides that an obligor who pays interest to a Foreign Resident who is not an individual, will withhold 25% tax from the payment.

(2) Capital gain

Article 2 of the Income Tax Regulations (Withholding from proceeds, from payment or from capital gain from the sale of a security or from a futures transaction), 5763-2002 (hereinafter - "the Withholding from Capital Gain Regulations"), provides that an obligor who pays the seller consideration when selling securities will withhold 15% of the real capital gain.

Article 5 of the Withholding from Capital Gain Regulations provides that the provisions of Article 2 will not apply to an obligor which is a financial institution, that is paying consideration based on tax-exempt capital gains, if the Foreign Resident submitted to the financial institution, within 14 days from the date of opening the account and once every three years, if he or his legal representative was in Israel, a Form 2402 declaration of being a Foreign Resident.

The Withholding from Interest Regulations and the Withholding from Capital gain Regulations provide that tax will not be withheld from interest income and capital gain for various entities that are listed in the Addendum to the Interest Regulations, such as provident funds and mutual funds.

The above on taxing does not constitute an opinion. It is a general and incomplete review of the legal situation on the date of the Prospectus. Naturally, the information above does not purport to be professional and authoritative advice, and every buyer of securities under the Prospectus is advised consult with a tax adviser.

5.10. Institutional investors

5.10.1. From the Units offered to the public and subject to the following provisions, 80,000 Units (80% of the Units) are being offered to the institutional investors listed in the table in Section 5.10.13 below (in this section: "the Institutional Investors"), under a prior commitment made to the Institutional Investors (hereinafter - "the Prior Commitment"). The Prior Commitments to Institutional Investors prior to publication of this Prospectus, and their acceptance, complied with the principles laid down in Section 3C of TASE Guidelines, Chapter C.

An "Institutional Investor", by the TASE Guidelines, is whoever undertakes to purchase at least NIS 800,000 worth of securities in an offering to the public, provided that it is among the entities listed in the Addendum as referred to in Section 14(a)(b)(1) of the Securities Law, 5728-1968 or is a corporation, as provided in Section 15(a)(b)(2) of that Law.

5.10.2. Each Institutional Investor undertook, as part of the Prior Commitment, to submit in the Tender, through the Offering Coordinator, applications to purchase Units in quantities and at interest rates that will not exceed those appearing in the table in Section 5.10.13 below, and to pay the consideration in respect of purchase of the Units.

5.10.3. Applications of the Institutional Investors will be submitted as part of the Tender through the Offering Coordinator, and will be considered as applications submitted by the public for determining the interest rate and for allotment of the Units, subject to the provisions of Section 5.10.7 below.

5.10.4. The allotment to the Institutional Investors will be at the Uniform Interest Rate to be determined in the Tender.

5.10.5. The Institution Investors will transfer the full consideration payable by them to the Offering Coordinator through the Official Application Recipients, on the first trading day after the Date of the Tender, by 12:30, and the Offering Coordinator will deposit that consideration in the Special Account.

5.10.6. The Institutional Investors will be entitled to commissions in exchange for the Prior Commitment, amounting to 1.25% of the total immediate proceeds from the Units that will be allotted to the institutional Investors, computed at the Unit price, and to a distribution commission of 0.1% of the immediate proceeds actually received in respect of all the Units for which orders were included in the Prior Commitment of the Institutional Investors and were accepted by the Company.

The commissions will be divided among the Institutional Investors pro rata to the number of Units to the Institutional Investors that were actually purchased by each Institutional Investor.

5.10.7. The following provisions will apply to the allotment of the Units to the Institutional Investors:

Under the TASE Guidelines, in the event of over-subscription (for this purpose, "over-subscription" means - the ratio of the number of Units ordered at the Uniform Interest Rate to be determined in the Tender to the number of Units offered to the public (after deduction of the number of Units ordered at an interest rate lower than the Uniform Interest Rate to be determined in the Tender), allotment to the institutional Investors will be as follows:

- (1) Where the over-subscription is up to five times, 100% of the quantity it undertook to purchase will be allotted to each Institutional Investor.
- (2) Where the over-subscription is more than five times, about 50% of the quantity it undertook to purchase will be allotted to each Institutional Investor.
- (3) If the quantity of securities remaining for distribution is insufficient for allotment as aforesaid in sub-sections (1) and (2) above, then the quantity that will be allotted to an Institutional Investor will be on the basis of a proportion equal to the applications of the institutional Investors.

5.10.8. If there is no over-subscription, the applications of the Institutional Investors in the Tender will be deemed to be applications made by the public for the purpose of distribution of securities to the applicants.

5.10.9. Notwithstanding the aforesaid, if according to the allotment provided in Sections 5.3.2.2 (1) - (3) above, minimum distribution is not attained as required in the TASE Guidelines, then the offered Units will be allotted proportionally, as provided in Sections 5.3.2.2 (4) - (6).

5.10.10. The Institutional Investors may order additional Units as part of the offering to the public, and in this case all the provisions applicable to orders of the rest of the public will apply to them and they will not be entitled to any commission in respect of the additional Units they order. The Institutional Investors may lower the interest rate stated in their Prior Commitments.

5.10.11. The institutional Investors may sell the securities included in the Units allotted to them, commencing on the date of their registration on the stock exchange: lock-up provisions will not apply to them.

5.10.12. The Units offered to the Institutional Investors constitute 80% of all the Units offered to the public in this offering.

5.10.13. Hereunder is the list of the Institutional Investors that have entered into a Prior Commitment as aforesaid, and the number of Units they have undertaken to purchase as part of the Prior Commitment, at an interest rate not exceeding the interest rate appearing in the table:

Name of Institutional Investor	Number of Units it has undertaken to purchase	Interest rate
Yuvalim - Study Fund*	262	4.00%
Yuvalim - Fund Disease*	262	4.00%
Haal - Pension Fund *	262	4.00%
Yuvalim - Pension Fund *	842	4.00%
Providents and Funds of the Histadrut Labor Federation*	1,685	4.00%
Apex Study Fund*	492	4.00%
Apex Provident & Payments Fund*	191	4.00%
Apex Provident Fund*	158	4.00%
Apex Flexible*	136	4.00%
Apex Foreign Equity*	136	4.00%
Apex CPIlinked*	272	4.00%
Apex Yield*	272	4.00%
Revavot Underwriting Ltd.	68	4.00%
DS Provident Fund*	680	4.00%
Y.A.Z. Investments & Assets Ltd.	374	4.00%
I.B.I. Guy	68	4.00%
P.K.N (L) Corporate Bonds	243	4.00%
P.K.N (M) 30-70	94	4.00%
P.K.N (M) Convertible and Corporate Bonds	94	4.00%
P.K.N (M) 20-80	94	4.00%
Hahsharat Hayesov Hevra Lebitoah Ltd. - Nostro	213	4.00%
Hahsharat Hayesov Hevra Lebitoah Ltd. - Mishtatfot	213	4.00%
Meitav Yeter - Bond	68	4.00%
D.I.M. Nihol Sikonim Ltd.	589	4.00%
Artrade Financial Engineering Ltd.	4,677	4.00%
Emda Option LMakam	935	4.00%
Emda Agach + Strategies	1,871	4.00%
Synergetica Ltd.	4,677	4.00%
Migdal Alumim Agach Companies	380	4.00%
Migdal Alumim Solidi	84	4.00%
D.B.M Potential	75	4.00%
Migdal Bond & Equity	187	4.00%
Migdal Bond & Equity 2	206	4.00%
Migdal Dollar	68	4.00%
Migdal Ksafim	68	4.00%
Migdal Gemel Platinum	69	4.00%

Name of Institutional Investor	Number of Units it has undertaken to purchase	Interest rate
Shibolet Providence Fund	86	4.00%
Yaniv Provident Fund	86	4.00%
Lahak Agach Companies	505	4.00%
Altshuler Shaham Underwriting Ltd.	4,677	4.00%
Altshuler Shaham Provident Fund Management Ltd.	4,677	4.00%
Altshuler Shaham Ltd.	4,677	4.00%
Altshuler Shaham Mutual Fund Management Ltd.	4,677	4.00%
Altshuler Shaham Paragon	449	4.00%
Altshuler Shaham Central Provident Fund	449	4.00%
Altshuler Shaham Yahalom	2,900	4.00%
Altshuler Shaham Study Funds	1,272	4.00%
Tsuot Sofa	4,677	4.00%
Tsuot Chen	4,677	4.00%
Tsuot Shkalim	4,677	4.00%
Tefahot Gemel Provident Fund Ltd.	331	4.00%
Tefahot Hishtalmut Ltd.	122	4.00%
Partnership Isramco Negev 2 Limited	168	4.00%
Analyst Convertibles - Mutual Fund	748	4.00%
Analyst Composite Bonds - Mutual Fund	187	4.00%
Analyst Corporate Bonds - Mutual Fund	374	4.00%
Analyst Diversified - Mutual Fund	1,497	4.00%
Analyst Properties - Mutual Fund	281	4.00%
Analyst Investments - Mutual Fund	374	4.00%
Analyst Select General Securities B' Fund	561	4.00%
Analyst Select General Securities B' Training Fund	112	4.00%
Analyst Provident Funds Ltd.	1,871	4.00%
Pia (M) Dynamic Best Invest Mutual Fund	187	4.00%
Pia (M) Conversion and Corporate Mutual Fund	505	4.00%
Pia 80/20 Mutual Fund	430	4.00%
Pia (M) Corporate Bonds Mutual Fund	673	4.00%
Pia (M) Solid Best Invest Mutual Fund	253	4.00%

Name of Institutional Investor	Number of Units it has undertaken to purchase	Interest rate
Pia (M) Dynamic CPI Mutual Fund	168	4.00%
Pia (L) Convertible Bonds 50 Mutual Fund	337	4.00%
Bank of Jerusalem Ltd.	243	4.00%
Rosario Capital Ltd.	2,713	4.00%
Leumi Nostro	861	4.00%
Harel Zmodey Madad (M)	68	4.00%
Harel (M) Shiklit Veyoter	68	4.00%
Harel Investment House	535	4.00%
Harel Hishtalmot	68	4.00%
Harel Kupat Gemel	68	4.00%
Harel Kupa Merkazet Lepizzoim	68	4.00%
Rothschild Dynamic Bonds	94	4.00%
Rothschild Madad	68	4.00%
Rothschild Stocks	68	4.00%
Ilanot (M) New York Mutual Fund	68	4.00%
Ilanot (L) Tidhar Mutual Fund Accumulated	85	4.00%
Ilanot (M) Potential Mutual Fund	68	4.00%
Ilanot (m) Dekel Menayot Mutual Fund	213	4.00%
Ilanot (M) Tick Agach debentures 20+ Mutual Fund	255	4.00%
Ilanot (M) Tick Agach debentures 35+ Mutual Fund	170	4.00%
Ilanot (M) Tick Agach debentures 50+ Mutual Fund	85	4.00%
Ilanot (M) Corporate Bonds and Convertibles Mutual Fund	213	4.00%
Afikim Agach Activit	187	4.00%
Afikim Agach Tsuaa Colelet	140	4.00%
Afikim Debentures	561	4.00%
Clal Finance Shkula (M)	1,122	4.00%
Batucha Maslul 20 (M)	468	4.00%
Clal Finance Agah (M)	655	4.00%
Clal Finance Estrategya Shiklit (M)	561	4.00%
Ramco Bonds	655	4.00%
Ramco Israel	187	4.00%
Ramco Real Estate	374	4.00%
Invest Pro Yesom Vekidom Hanpakot (1993) Ltd.	94	4.00%
Millennium Stocks	187	4.00%
	80,000	

* Affiliated with the Underwriters.

On the Date of the Tender, the Institutional Investors may lower the interest rate at which they made their undertaking as part of the Prior Commitment referred to above.

6. ADDITIONAL INFORMATION

Beginning February 4, 2005 our shares have traded on the NASDAQ National Market.

Registration Statement

On February 21, 2005, we filed with the TASE and the Israeli Securities Authority a registration statement for the dual registration of our ordinary shares on the TASE, in addition to the NASDAQ National Market, and thereby registered 18,431,500 ordinary shares of 0.01 NIS par value each in the TASE.

7. SELECTED FINANCIAL DATA

The following selected financial data presented in the table below has been derived from our audited consolidated financial statements as of and for each of the five years in the period ended December 31, 2004. The selected financial data should be read in conjunction with our consolidated financial statements, and the related notes, which are included elsewhere in this prospectus.

For further information regarding significant differences between Israeli GAAP and U.S. GAAP and their effect on the Financial Statements, see Chapter 23 to the prospectus.

The translation of New Israel Shekel, or NIS, amounts into U.S. dollars has been made solely for the convenience of the reader at the representative rate of exchange at December 31, 2004 (NIS 4.308 = \$1.00).

	Year Ended December 31,					
	2000	2001	2002	2003	2004	2004
	NIS	NIS	NIS	NIS	NIS	Convenience Translation Dollars *
	(In thousands, except per share data)					
Israeli GAAP information Consolidated Statement of Operations Data:						
Revenues						
Access revenues	119,848	139,850	156,336	146,906	156,385	36,301
International telephony service	-	-	-	-	9,381	2,178
Other revenues	19,684	48,473	27,982	32,736	53,811	12,491
Total revenues	139,532	188,323	184,318	179,642	219,577	50,970
Cost and expenses:						
Cost of revenues	95,335	116,135	99,564	92,871	96,820	22,474
Selling and marketing expenses	73,014	51,299	37,125	41,393	73,155	16,981
General and administrative expenses	46,844	38,884	21,209	21,908	24,258	5,631
	215,193	206,318	157,898	156,172	194,233	45,086

Total cost and expenses						
Income (loss) from operations	(75,661)	(17,995)	26,420	23,470	25,344	5,884
Financing (expenses) income, net	3,842	7,308	2,151	(3,235)	122	28
Other income (expenses), net	(21)	(2,332)	(3)	(2,592)	(1,077)	(250)
Income (loss) from continuing operations	(71,840)	(13,019)	28,568	17,643	24,389	5,662
Income tax benefits	-	-	-	1,935	301	70
Net income (loss) after income tax benefits	(71,840)	(13,019)	28,568	19,578	24,690	5,732
Company's share in net loss of investees	(2,193)	(682)	(1,530)	(1,538)	(396)	(92)
Minority interest in loss of a subsidiary	1	963	-	-	-	-
Loss of a subsidiary which the Company does not intend to bear						
						-
						383
						-
						-
						-
						-
Net income (loss) from continued operations						(74,032)
)						(12,355)
)						27,038
						18,040
						24,294
						5,640

Loss from discontinued operations	
)	(7,355)
)	(8,843)
	-
	-
	-
	-
Company's share in loss of investees from discontinued operations	
	-
	-
)	(7,080)
)	(3,737)
)	(4,763)
)	(1,106)
Net income (loss)	
)	(81,387)
)	(21,198)
	19,958
	14,303
	19,531
	4,534
Income (loss) per share, basic and diluted	

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Net income (loss) per NIS 0.01 per value of shares (in NIS) from continued operations

)	(4.02)
)	(0.67)
	1.47
	0.98
	1.32
	0.31

Net income (loss) per NIS 0.01 per value of shares (in NIS) from discontinued operations

)	(0.40)
)	(0.48)
)	(0.38)
)	(0.20)
)	(0.26)
	0.06
)	(4.42)
)	(1.15)
	1.08
	0.78
	1.06
	0.25

Weighted average number of shares outstanding (in thousands)

18,432

18,432

18,432

18,432

18,432

18,432

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	2000	2001	As at December 31,		2004	2004
	NIS	NIS	2002	2003	NIS	Convenience Translation Dollars *
			NIS	NIS		
	(In thousands, except per share data)					
Consolidated Balance Sheets Data:						
Total assets	251,765	228,322	169,052	214,004	300,023	69,644
Working capital	41,743	48,615	80,904	76,256	41,714	9,683
Total debt	146,760	144,510	65,284	95,933	176,477	40,965
Total shareholders' equity	105,005	83,811	103,768	118,071	121,893	28,295
US GAAP information Consolidated Statement of operations data:						
Net income (loss) from continued operations						
	(70,909)	(6,232)	27,051	18,874	27,164	6,305
Net Loss - discontinued operations	(12,960)	(17,649)	(21,128)	(6,803)	(6,588)	(1,529)
Net income (loss)	(83,869)	(23,881)	5,923	12,071	20,576	4,776
Consolidates Balance sheets date:						
Total assets	248,249	219,738	199,101	244,682	305,554	70,927
Total shareholders equity	105,024	79,429	85,881	104,430	121,193	28,132

* The translation of New Israel Shekel, or NIS, amounts into U.S. dollars has been made solely for the convenience of the reader at the representative rate of exchange at December 31, 2004 (NIS 4.308= \$1.00).

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Operating Results

The following discussion and analysis is based on and should be read in conjunction with our consolidated financial statements, including the related notes, and the other financial information included in this Prospectus or incorporated by reference. The following discussion contains forward-looking statements that reflect our current plans, estimates, and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and below and elsewhere in this Prospectus.

Overview

We are a leading Israeli Internet service provider serving as of December 31, 2004, 339,146 residential subscribers and 3,510 business subscribers. We provide a wide array of Internet services tailored to meet the needs of our subscribers, including Internet access and other value-added services, e-commerce and content services.

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We currently provide Internet services through a nationwide network providing dial-up, broadband, web hosting, web security and integration services. We offer a wide range of Internet access packages to meet the needs of our residential and business subscribers. We also offer related value-added Internet services, such as web faxing, virtual magazines, anti-virus, anti-spam and hosting, to attract and retain subscribers, increase usage and create additional revenue streams. By offering high-quality, price-competitive Internet access and related services at a varied range, we seek to develop both our residential and business subscriber base. In addition to providing Internet access and related services, we are a major operator in the portals and advertising market through our subsidiary MSN Israel (a joint venture with Microsoft Corp.) and Start and in the e-commerce market through MSN Israel and our e-commerce P1000 site.

From the end of 2000 until the fourth quarter of 2002, we concentrated on a strategy focused on profitability rather than market share. During the fourth quarter of 2002, the significant increase in demand for broadband was coupled with intense competition between all local ISPs, which resulted in reductions of service prices by all Internet service providers, or ISPs. Due to this market environment, we adopted a more aggressive marketing policy in order to attract a greater number of broadband customers while continuing to keep tight control on our expenses. This strategy yielded a 54% increase in the number of broadband customers in 2004 as compared to 2003. We have decided to continue this policy during 2005. Due to the price reductions caused by the aggressive competition in the broadband market and the expenses associated with our marketing efforts to attract customers, our profitability may be negatively impacted in the future.

On June 2, 2004 we received a license to provide international telephony services. We launched these services on August 7, 2004. The first service we offered was direct calls from Israel to the rest of the world (approximately 240 countries). We intend to offer supplemental services in the near future, such as pre-paid services, post-paid services and 1-800 services. We offer our services to residential and business subscribers. As of December 31, 2004 we had approximately 86,300 subscribers for these services.

The international telephony market, as well as the internet market, is a very competitive market. Due to the conditions of the market and the entrance of two new competitors (Netvision Ltd and Xfone), we have adopted an aggressive penetration strategy in order to gain subscribers and market share. At this time we are continuing to keep tight control on our expenses but it could be that this strategy could impact negatively on our profitability.

Critical Accounting Policies

We have identified the policies below as critical to the understanding of our financial statements. The application of these policies requires management to make estimates and assumptions that affect the valuation of assets and expenses during the reporting period. There can be no assurance that actual results will not differ from these estimates.

We prepare our financial statements in accordance with Israeli GAAP. As such, we are required to make certain estimates, judgments, and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Differences between Israeli GAAP and U.S. GAAP as they relate to our financial statements are described in Note 21 to our financial statements.

In accordance with applicable Israeli accounting principles, we maintain our accounts and present our financial statements in NIS, adjusted for changes in the Israeli consumer price index through December 31, 2003. Consequently, all previously published NIS amounts in our financial statements were adjusted each time we published new financial statements in order to reflect changes in the Israeli consumer price index, and so all information is presented in NIS adjusted to December 2003 and constitute the starting point for our nominal financial reports as of January 1, 2004. See Note 2C to the financial statements. Any additions made during 2004 are included according to their nominal values. This presentation of the comparative figures permits the financial information to be presented in

NIS with identical purchasing power. The translation of NIS amounts into dollars has been made solely for the convenience of the reader at the representative rate of exchange (as published by the Bank of Israel) at December 31, 2004 of NIS 4.308 = \$1.00.

The significant accounting policies that we believe are most critical to aid a reader in fully understanding and evaluating our financial condition and results of operation under Israeli generally accepted accounting principles are discussed below.

Revenue recognition. Most of our revenues are derived from Internet access. These revenues are recognized ratably over the period that services are provided. Other revenues include international telephony services, website hosting, electronic commerce and advertising revenues. Revenues from international carrier services are recognized according to minutes of traffic, Website hosting revenues are recognized as the services are performed. Electronic commerce revenues are recognized as the services are performed or when the goods are delivered, as applicable. Advertising revenues are recognized on a straight-line basis over the term of the contract. We consider revenue recognition to be critical since we have many revenue engines which involve subjective estimates by our management.

Revenues from sale agreements which do not include a general right of return and which include a number of elements such as: hardware, software and support agreements are split into separate accounting units and are recognized separately with respect to each accounting unit. An element constitutes a separate accounting unit if, and only if, it has a separate value to the customer and there is reliable and objective evidence regarding the fair value of all the elements of the agreement/the fair value of undelivered elements. Elements that are not split into an accounting unit due to non-fulfillment of the conditions specified above are grouped together under one accounting unit. Revenues from the various accounting units are recognized when the conditions for recognizing the revenues from the elements included in that same accounting unit according to their type have been fulfilled, and only up to the amount of the consideration that is not contingent upon the completion/execution of the other elements of the contract.

Revenues from the sale of software licenses are recognized when all the following conditions have been met: the software has been delivered to the customer, collection of the payment is probable, the amount of the contract has been or can be determined and there is objective and persuasive evidence of the contract and of our ability to allocate the consideration between the elements of the contract.

We evaluate our revenue recognition policy every quarter with respect to existing and new accounting principles. In addition, every quarter we examine the different parameters that may affect our revenues and their recognition, such as customer credits, accrued revenues and revenues from cooperation with third parties. According to these examinations we decide on the required changes, if any, in our revenue recognition policies. Based on our past experience, our policy was appropriate and did not require complex estimates.

Allowance for doubtful accounts. The allowance for doubtful accounts represents management's estimate of the aged receivable balance considered uncollectible, based on past experience. All accounts aged over 150 days and accounts which have been forwarded to our lawyers are considered as doubtful accounts and are recorded as such. We evaluate our guidelines every quarter and examine the material parameters that might affect the assessment of our doubtful accounts, such as the population tendency to make timely payments, rate of checks returned for insufficient payment and blocked bank accounts. Our policy has been consistent and has proven itself over the years. Therefore, based on our past experience we believe this policy is appropriate.

"Impairment of Assets." In February 2003, the Israel Accounting Standards Board published Accounting Standard No. 15 - "Impairment of Assets." The Standard provides procedures which a company must apply in order to ensure that its assets in the consolidated balance sheet are not presented in an amount which is in excess of their recoverable value, which is the higher of the net selling price or the present value of the estimated future cash flows expected to be derived from use and disposal of the asset. With respect to the implementation of this standard, subjective estimates are involved in the process of decision making. In addition, the Standard provides rules for presentation and disclosure with respect to assets whose value has declined.

The Standard applies to financial statements for periods beginning January 1, 2003. The Standard provides that in most cases the transition will be effected by means of the "from hereon" method. As required under the Standard we evaluate its impact every quarter, review cash flow analysis, the market prices of our assets and other relevant estimates to ensure an adequate implementation of the Standard.

The Effect of New Israeli Accounting Standards in the Pre-Application Period

In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19, "Taxes on Income". The Standard provides that a liability for deferred taxes is to be recorded for all temporary differences subject to tax, except for a limited number of exceptions. In addition, a deferred tax asset is to be recorded for all temporary differences that may be deducted, losses for tax purposes and tax benefits not yet utilized, if it is anticipated that there will be taxable income against which they can be offset, except for a limited number of exceptions. The new Standard applies to financial statements for periods beginning on January 1, 2005. The Standard provides that it is to be implemented by means of a cumulative effect of a change in accounting method. In our estimation, the impact of the Standard on our results of operations, financial position and cash flows will not be material.

Business Background

We earn revenues from Internet access services and value-added Internet services, advertising on our portals, e-commerce and international telephony services. To date, we have generated most of our revenues from our Internet access services to residential, SOHO (small office and home office) and business subscribers. Internet access revenues primarily consist of monthly subscription for broadband and dial-up access to the Internet. As a result, our revenues are directly affected by the total number of our paying residential, SOHO and business subscribers and the average price for our Internet access service per subscriber. At December 31, 2004 the number of our residential and SOHO subscribers was 339,146 a 9% growth rate in our residential and SOHO subscribers compared to December 31, 2003. The number of our business subscribers increased by 35% in 2004. The following table includes the number of our residential (including SOHO) and business subscribers in 2003 and 2004 (in thousands as of 31 December:

	2003	2004
Broadband	107	164
Dial-Up	63	31
Occasional	143	144
Total residential subscribers	313	339
Business subscribers	2.6	3.5

Most of our subscribers may cancel their subscriptions at any time. Some of our subscribers, who enter into annual, bi-annual or tri-annual contracts under special packages, are subject to certain penalty payments if they cancel during the contract period, including payments for the free benefits they received as part of the special package. Cash received from subscribers is applied to working capital when received.

We also earn revenues from value-added Internet services, such as global roaming, web hosting, web faxing, virtual magazines, anti-virus, anti-spam and online e-commerce site implementation. We earn revenues for these services based either on our fixed prices for the service or a negotiated fee. In addition, we earn revenues from portal advertising at negotiated fees.

In August 2004 we began to earn revenues from international telephony services. These revenues are generated from payments we receive from international carriers using our services for termination of calls and payments for the minutes used by subscribers. We offer monthly packages and offer discounts to subscribers. Our customers for these services include monthly subscribers and occasional users.

We bill for Internet access and for the international telephony on a monthly basis, which generally runs from the 20th day of the calendar month to the 19th day of the following calendar month. Revenues for services are accrued until the last day of the reporting period. Revenues for other services are recognized as the services are provided, including virtual magazines, anti-virus and website hosting and as products are delivered, including e-commerce activities. In cases where we assume responsibility for the goods sold in e-commerce transactions, we recognize the gross revenues. In cases where we act as a middleman we recognize the net commission as our revenues.

For both Internet access services and other services, we generally bill our residential subscribers on a monthly basis. Most of our residential subscribers pay us by credit card or a bank debit order. Business customers are billed on a monthly (or quarterly) basis, and we generally receive payment in full within 10 to 70 days of invoice.

Significant Costs and Expenses

Cost of Revenues. Our cost of revenues consists primarily of costs of communication services, salaries and related expenses, facilities costs and depreciation expenses. The communication services costs include costs for providing local telephone lines into our points of presence, the use of third party networks and leased lines to connect each of our points of presence to our regional network operations centers, the connection between our regional network operations centers, points of presence and the Internet backbone. We also include in the cost of revenues telecommunication services expenses related to the international telephony services. Since the launch of the international telephony service in August 2004 we have entered into agreements with several international carriers for the purchase of international long distance voice services to about 240 destinations around the world.

We believe that a high level of subscriber satisfaction with the speed and reliability of our network is not only essential for retaining subscribers, but also essential for attracting new subscribers through personal referrals. Accordingly, we have spent significant sums on trans-Atlantic leased lines, to ensure adequate bandwidth to the United States.

We include salary costs for our technical and technical support staff in our cost of revenues. These employees are directly involved in providing our Internet access service and our international telephony services to our subscribers. Most of our technical staff is full-time salaried employees and most of our technical support staff is part-time salaried employees.

Our cost of revenues also includes the costs of facilities used to provide technical services and depreciation, principally in respect of our network equipment.

Selling and Marketing Expenses. Selling and marketing expenses consist primarily of media advertisement and sales promotion costs as well as salaries, commissions and related costs for our sales representatives, facilities costs related to sales and marketing and credit card commissions. Credit card commissions are merchant fees based on the percentage of our revenue earned through credit cards.

General and Administrative Expenses. General and administrative expenses consist primarily of salary and related costs associated with our executive and administrative functions, lease payments for our administrative facilities and other miscellaneous expenses. As of December 31, 2004, we (excluding our subsidiaries) employed 293 full-time salaried employees and 542 part-time employees who are paid on an hourly basis. Staff costs include direct salary costs and related costs such as severance pay, social security and retirement fund contributions, vacation and recreation pay.

Financing Income (Expenses) Net. Net financing income (expenses) includes financing costs, interest income on our cash reserves and exchange rate differentials in real terms as well as devaluation of monetary assets and monetary liabilities. Beginning January 1, 2004 all of these items are stated in nominal values.

Income tax. We assessed our deferred tax assets and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon our ability to generate the appropriate character of future taxable income sufficient to utilize loss carry forwards before their expiration.

Non-Cash Charges. Under U.S. GAAP, but not under Israeli GAAP, we would recognize for the years ended December 31, 1999 through 2004, non-cash charges aggregating NIS 2.7 million (\$ 0.6 million) according to Accounting Principles Board Opinion No. 25 ("APB 25") on account of our Stock Option plan from 1999 (expenses of NIS 102 thousands for the year ended December 31, 2004, and income of NIS 109 thousands for the year ended December 31, 2003, and expenses of NIS 530 thousands for the year ended December 2002).

If in the future, we issue options under a stock option plan with exercise prices below fair market value at the time of issuance, U.S. GAAP, but not Israeli GAAP, would require us to recognize an additional non-cash charge with respect to such issuance.

Results of Operations

The following discussion of our results of operations for the years ended December 31, 2002, 2003 and 2004, including the percentage from revenues data in the following table, is based upon our consolidated statements of operations contained in our consolidated audited financial statements for those periods, and the related notes, included elsewhere in this Report:

	Year ended December 31,		
	2002	2003	2004
Revenues:			
Access revenues	85%	82%	71%
International telephony services	-	-	4
Other revenues	15	18	25
Total revenues	100	100	100
Cost and expenses:			
Cost of revenues	54	52	44
Selling and marketing expenses	20	23	33
General and administrative expenses	12	12	11
Total cost and expenses	86	87	88
Income from operations	14	13	12
Financing income (expenses), net	1	(2)	-
Other expenses, net	-	(1)	-
Net income after financing expenses	15	10	12
Income tax benefit	-	1	-
Net income after income tax benefit	15	11	12
Company's share in net loss of investees	(1)	(1)	-
Minority interest in loss of a subsidiary	-	-	-
Net income from continued operations	14	10	12
Company's share in loss of investees from discontinued operations	(4)	(2)	(2)
Net income	10	8	10

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Under Israeli GAAP

Revenues. Revenues increased by 22% from NIS 179.6 million (US\$ 41.7 million) for the year ended December 31, 2003 to NIS 219.6 million (US\$ 51 million) for the year ended December 31, 2004. The increase is primarily due to revenues from the new 015 international telephony services that was launched on August 7, 2004 and due to the substantial growth of our interactive advertising and content-based value added services as well as our intense efforts in after-sale activities. We believe* the growth rate of our revenues will improve in 2005, driven primarily by the continued expansion of our telephony and e-Advertising businesses, and due to the full year consolidation of our e-commerce P1000 site's revenues in 2005.

Access Revenues. Revenues from Internet access services provided to residential and business subscribers, which represented 71% of our total revenues for 2004, increased by 6% from NIS 146.9 million (US\$ 34.1 million) for 2003 to NIS 156.4 million (US\$ 36.3 million) for 2004. The increase is primarily due to our major efforts to keep our market share regardless of the sharp competition in the market. We expect* that in 2005 our access revenues will remain at the same level, based on our forecasts regarding the development of the access services market in Israel.

*This paragraph includes forward-looking statements (see page 4 herein) that may be materially different from our actual future results/ performance as forward-looking statements are subject to uncertainties and other factors and involve known and unknown risks (for known risks see Risk Factors on page 11).

International Telephony Services. Since the successful launch of our 015 international telephony service on August 7, 2004 we gained revenues of NIS 9.4 million (US\$ 2.2 million) which represents 4% of our total revenues. We believe* the growth rate of our revenues from this activity will improve in 2005, driven primarily by the continued expansion of this activity by entering into supplemental activities in the market such as pre-paid, post-paid, calling card services and other related activities.

Other Revenues. Other revenues, which represented 25% of our total revenues for 2004, increased by 64% from NIS 32.7 million (US\$ 7.6 million) for 2003 to NIS 53.8 million (US\$ 12.5 million) for 2004. The increase is primarily due to the substantial growth of our interactive advertising and content-based value added services as well as our intense efforts in after-sale activities. We expect* that our other revenues will increase in 2005, based on our market research findings that the interactive advertising market should increase in Israel in 2005 and due to the full year consolidation of our e-commerce P1000 site's revenues in 2005.

Cost of Revenues. Cost of revenues increased by 4% from NIS 92.9 million (US\$ 21.6 million) for 2003 to NIS 96.8 million (US\$ 22.5 million) for 2004. The increase is primarily due to costs of telecommunication services expenses related to the international telephony services. Since the launch of the international telephony service in August 2004 we entered into agreements with several international carriers all over the world for the purchase of international long distance voice services to about 240 destinations around the world. We anticipate that our cost of revenues will increase in 2005, based on our forecasts and estimates of the growth of all of our major activities and due to the full year consolidation of our e-commerce P1000 site activity in 2005.

Selling and Marketing Expenses. Selling and marketing expenses increased by 77% from NIS 41.4 million (US\$ 9.6 million) for 2003 to NIS 73.2 million (US\$ 17 million) for 2004. The increase is primarily due to the initial intensive marketing campaign and other marketing activities for the launch of the new 015 international telephony service, and due to our market share strategy to extend our share of the broadband market, including our advertising campaigns. We expect that our selling and marketing expenses will increase in 2005 due to our continued implementation of our strategy to increase our market share in all of our activities and their related markets.

General and Administrative Expenses. General and administrative expenses increased by 11% from NIS 21.9 million (US\$ 5.1 million) for 2003 to NIS 24.3 million (US\$ 5.6 million) for 2004. The increase was primarily due to general expenses related to our new international telephony services and as a result of our initial and intensive preparations for this activity. We expect that our general and administrative expenses will increase in 2005, primarily due to expected increase in our revenues.

Financing Income (Expenses), Net. In 2004 we had net financing income of NIS 0.12 million (US\$0.03 million) compared to net financing expenses of NIS 3.2 million (US\$0.8 million) for 2003. Our financing income (expenses) are attributed to the exchange rate differentials on the U.S. dollar cash deposits that remained from our initial public offering. We also have U.S. dollar denominated liabilities (rights of use leasing obligations for our international lines).

Other Expenses, Net. In 2004 we had net other expenses of NIS 1.1 million (US\$ 0.26 million) compared with NIS 2.6 million (US\$ 0.6 million) in 2003. Our other expenses are primarily attributable to Internet Gold International Ltd's recording of an additional impairment charge of NIS 1.6 million (US\$0.4 million) with respect to its investment in Compulink, a Greek ISP, in which it holds a 15.2% interest. With this impairment charge Internet Gold International has written off its entire investment in Compulink and its operations can no longer adversely influence our results.

*This paragraph includes forward-looking statements (see page 4 herein) that may be materially different from our actual future results/ performance as forward-looking statements are subject to uncertainties and other factors and involve known and unknown risks (for known risks see Risk Factors on page 11).

Income Taxes. As of December 31, 2004, we had a tax loss carry forward on a consolidated basis of approximately NIS 113 million (US\$ 26.2 million) - including our reconsolidated subsidiary Gold Trade with a tax loss carry forward of NIS 60 million. We assessed our deferred tax assets and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. We cannot be reasonably assured of our ability to further utilize the tax asset in the foreseeable future, except that we anticipate that we will be able to utilize Start-Net's tax loss carry forward for which we recorded a deferred tax asset of NIS 2.3 million (US\$ 0.5 million). In 2003 we recorded deferred tax assets of Gold Mind's tax loss carry forward of NIS 1.9 million (\$0.4 million). During 2004, we utilized most of Gold Mind's tax loss carry forward.

Company's Share in Net Loss of Investees. In 2004 we recorded NIS 0.4 million (US\$ 0.09 million) as our share in the net loss of investees from continued operations of our investees compared to NIS 1.5 million (US\$ 0.35 million) in 2003. In 2004, we recorded NIS 4.8 million (US\$ 1.1 million) as our share in the net loss of investees from discontinued operations of our investees compared to NIS 3.7 million (US\$ 0.9 million) in 2003. At the end of 2004, Gold Trade's board of directors reached the decision to close down all of its operations except the e-commerce activity P-1000 site.

Net Income. We reported net income of NIS 19.5 million (US\$ 4.5 million), for the year ended December 31, 2004 as compared to a net income of NIS 14.3 million (US\$ 3.3 million) for the year ended December 31, 2003.

Under U.S. GAAP

Unless otherwise explained, there are no significant differences between Israeli GAAP and U.S. GAAP

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities when the equity investors do not have the characteristics of a controlling financial interest (as defined in the Interpretation). In December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." The FASB deferred the effective date for implementation of this Interpretation until fiscal years ending after March 15, 2004.

According to Israeli GAAP as prescribed in Opinion No. 57 of the Institute of Certified Public Accountants in Israel, we treated the investment in our affiliated company Gold Trade, as a subsidiary of our company until December 31, 2001. For the years ended December 31, 2002 and December 31, 2003, we accounted for our investment under the equity method. During December 2004, we acquired all of the shares of Gold Trade from a related party and from others therefore we once again consolidated Gold Trade as a subsidiary as of December 31, 2004.

Under the provisions of FIN 46R, we were required to consolidate Gold Trade which met the definition of a VIE for all years presented, due to a number of factors which indicate that we are the primary beneficiary of Gold Trade.

We applied FIN 46R by retroactively restating previously issued financial statements, and recorded a cumulative effect of accounting change as of January 1, 2002 in the amount of NIS 4.4 million (US\$ 1 million).

Revenues. Revenues increased by 23% from NIS 185.6 million (US\$ 43 million) for the year ended December 31, 2003 to NIS 228.8 million (US\$ 53.1 million) for the year ended December 31, 2004. The increase was primarily due to revenues from our new 015 international telephony service that was launched on August 7, 2004 and due to the substantial growth of our interactive advertising and content-based value added services as well as our intense efforts in after-sale activities.

Other Revenues. Other revenues, which represented 28% of our total revenues for 2004, increased by 63% from NIS 38.7 million (US\$ 8.9 million) for 2003 to NIS 63 million (US\$ 14.6 million) for 2004. The increase was primarily due to the substantial growth of our interactive advertising and content-based value added services as well as intense efforts in after-sale activities.

Cost of Revenues. Cost of revenues increased by 4.5% from NIS 93.9 million (US\$ 21.8 million) for 2003 to NIS 98.1 million (US\$ 22.8 million) for 2004. The increase was primarily due to costs of telecommunication services expenses related to our new international telephony services. Since the launch of our international telephony service in August 2004 we have entered into agreements with several international carriers all over the world for the purchase of international long distance voice services to about 240 destinations around the world. The differences between Israeli GAAP and U.S. GAAP relating to our cost of revenues expenses was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Selling and Marketing Expenses. Selling and marketing expenses increased by 70% from NIS 46.4 million (US\$ 10.8 million) for 2003 to NIS 78.7 million (US\$ 18.3 million) for 2004. The increase was primarily due to the initial intensive marketing campaign and other marketing activities associated with our launch of the new 015 service, and due to the implementation of our market share strategy to extend our share of the broadband market, including the costs of our advertising campaigns. The differences between Israeli GAAP and U.S. GAAP relating to our selling and marketing expenses was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R,

General and Administrative Expenses. General and administrative expenses increased by 12% from NIS 24.3 million (US\$ 5.6 million) for 2003 to NIS 27.3 million (US\$ 6.3 million) for 2004. The differences between Israeli GAAP and U.S. GAAP relating to our general and administrative expenses was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R, the amortization of Gold Trade 's customer list of NIS 3.3 million compared to NIS 1.2 million in 2003 and the recording of compensation expenses under U.S. GAAP with respect to grants under our employee stock option plan as required under APB No. 25 - an expense of NIS 0.1 million in 2004 compared to income of NIS 0.11 million in 2003.

Financing Income (Expenses), Net. In 2004 we had net financing expenses of NIS 0.08 million (US\$0.02 million) compared to NIS 3.6 million (US\$0.84 million) for 2003. Our financing expenses were primarily attributable to the exchange rate differentials on the U.S. dollar cash deposits that remained from our initial public offering. We also have U.S. dollar denominated liabilities (rights of use leasing obligations for our international lines). The differences between Israeli GAAP and U.S. GAAP relating to our financing expenses are due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Net Loss from Discontinued Operations. At the end of 2004, Gold Trade's board of directors reached the decision to close down all its operations except the e-commerce activity P-1000 site. In 2004 we recorded a net loss of NIS 6.6 million (US\$ 1.5 million) net loss from discontinued operations compared to a net loss of NIS 6.8 million (US\$ 1.6 million) in 2003.

Net Income. We reported net income of NIS 20.6 million (US\$ 4.8 million), for the year ended December 31, 2004 as compared to a net income of NIS 12.1 million (US\$ 2.8 million) for the year ended December 31, 2003. The differences between Israeli GAAP and U.S. GAAP relating to our net income are due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Under Israeli GAAP

Revenues. Revenues decreased by 3% from NIS 184.3 million (US\$ 42.8 million) for the year ended December 31, 2002 to NIS 179.6 million (US\$ 41.7 million) for the year ended December 31, 2003. The decrease was primarily due to the sharp competition in the market which resulted in lower access fees.

Access Revenues. Revenues from Internet access services provided to residential and business subscribers, which represented 82% of our total revenues for 2003, decreased by 6% from NIS 156.3 million (US\$ 36.3 million) for 2002 to NIS 146.9 million (US\$ 34.1 million) for 2003. The decrease was primarily due to the sharp competition in the market.

Other Revenues. Other revenues, which represented 18% of our total revenues for 2003, increased by 17% from NIS 28 million (US\$ 6.5 million) for 2002 to NIS 32.7 million (US\$ 7.6 million) for 2003. The increase was primarily due to the substantial growth of our interactive advertising and content-based value added services as well as our intense efforts in after-sale activities.

Cost of Revenues. Cost of revenues decreased by 7% from NIS 99.6 million (US\$ 23.1 million) for 2002 to NIS 92.9 million (US\$ 21.6 million) for 2003. The decrease was primarily due to our efforts in reducing the costs of international lines. Cost of revenues as a percentage of revenues decreased from 54% for 2002 to 52% for 2003.

Selling and Marketing Expenses. Selling and marketing expenses increased by 12% from NIS 37.1 million (US\$ 8.6 million) for 2002 to NIS 41.4 million (US\$ 9.6 million) for 2003. The increase was primarily due to costs incurred in implementing our market share strategy to extend our share of the broadband market, including our advertising campaigns.

General and Administrative Expenses. General and administrative expenses were similar to the expenses in the year 2002, NIS 21.2 million (US\$ 4.9 million) for 2002 to NIS 21.9 million (US\$ 5.1 million) for 2003.

Financing Income (Expenses), Net. In 2003 we had net financing expenses of NIS 3.2 million (US\$ 0.7 million) compared to net financing income of NIS 2.2 million (US\$ 0.5 million) for 2002. Our financing expenses were attributable to the exchange rate differentials on the U.S. dollar cash deposits that remained from our initial public offering.

Other Expenses, Net. Internet Gold International recorded an impairment charge of NIS 2.6 million (US\$ 0.6 million) with respect to its investment in Compulink, a Greek ISP, in which it holds a 15.2% interest.

Income Taxes. As of December 31, 2003, we had a tax loss carry forward on a consolidated basis of approximately NIS 81.3 million (US\$ 18.9 million).

Company's Share in Net Loss of Affiliates. In 2003 we recorded NIS 1.5 million (US\$ 0.3 million) of our share in the net loss of our affiliates from continued operations compared to NIS 1.5 million (US\$ 0.3 million) in 2002. We also recorded NIS 3.7 million (US\$ 0.9 million) of our share in net loss of our affiliates from discontinued operations compared to NIS 7.1 million (US\$ 1.6 million) in 2002.

Net Income. We reported net income from continued operations of NIS 18 million (US\$ 4.2 million), for the year ended December 31, 2003 as compared to a net income from continued operations of NIS 27 million (US\$ 6.3 million) for the year ended December 31, 2002. We reported a net loss from discontinued operations of NIS 3.7 million (US\$ 0.9 million), for the year ended December 31, 2003 as compared to a net loss from discontinued

operations of NIS 7.1 million (US\$ 1.6 million) for the year ended December 31, 2002. We also reported net income of NIS 14.3 million (US\$ 3.3 million) for the year ended December 31, 2003 as compared to net income of NIS 20 million (US\$ 4.6 million) for the year ended December 31, 2002.

Under U.S. GAAP

Unless otherwise explained, there are no significant differences between Israeli GAAP and U.S. GAAP

Under the provisions of FIN 46R, we were required to consolidate the financials of Gold Trade which met the definition of a VIE for all years presented, due to a number of factors which indicated that we were the primary beneficiary of Gold Trade.

We applied FIN 46R by retroactively restating previously issued financial statements.

Revenues. Revenues decreased by 5% from NIS 194.6 million (US\$ 45.2 million) for the year ended December 31, 2002 to NIS 185.6 million (US\$ 43.1 million) for the year ended December 31, 2003. The decrease was primarily due to the sharp competition in the market which resulted in lower access fees.

Other Revenues. Other revenues were similar in both years, increasing from NIS 38.3 million (US\$ 8.9 million) for 2002 to NIS 38.7 million (US\$ 8.9 million) for 2003

Cost of Revenues. Cost of revenues decreased by 10% from NIS 103.4 million (US\$ 24 million) for 2002 to NIS 93.9 million (US\$ 21.8 million) for 2003. The decrease was primarily due to our efforts in reducing costs of our international lines. The differences between Israeli GAAP and U.S. GAAP relating to our net income was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Selling and Marketing Expenses. Selling and marketing expenses increased by 4% from NIS 44.8 million (US\$ 10.4 million) for 2002 to NIS 46.4 million (US\$ 10.8 million) for 2003. The increase was primarily due to the costs associated with the implementation of our market share strategy to extend our share of the broadband market, including the costs of our advertising campaigns. The differences between Israeli GAAP and U.S. GAAP relating to our net income was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

General and Administrative Expenses. General and administrative expenses were similar in both years, increasing from NIS 23.8 million (US\$ 5.5 million) in 2002 compared to NIS 24.4 million (US\$ 5.7 million) in 2003. The differences between Israeli GAAP and U.S. GAAP relating to our net income was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Financing Income (Expenses), Net. In 2003 we had net financing expenses of NIS 3.6 million (US\$ 0.8 million) compared to net financing income of NIS 2.1 million (US\$ 0.5 million) for 2002. Our financing expenses were attributable to the exchange rate differentials on the U.S. dollar cash deposits that remained from our initial public offering. The differences between Israeli GAAP and U.S. GAAP relating to our net income were due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Net Loss from Discontinued Operations. We reported a net loss from discontinued operations of NIS 6.8 million (US\$ 1.6 million), for the year ended December 31, 2003 as compared to a net loss from discontinued operations of NIS 21.1 million (US\$ 4.9 million) for the year ended December 31, 2002.

Net Income. We reported net income of NIS 12.1 million (US\$ 2.8 million), for the year ended December 31, 2003 as compared to a net income of NIS 1.5 million (US\$ 0.3 million) for the year ended December 31, 2002 (including a cumulative effect of accounting change as of January 1, 2002 in the amount of NIS 4.4 million (US\$ 1 million)). The differences between Israeli GAAP and U.S. GAAP relating to our net income was due to the consolidation of Gold Trade under U.S. GAAP as required by FIN 46R.

Quarterly Results of Operations

The following table sets forth our results of operations for our last eight quarters. The data has been derived from our quarterly earnings releases for those periods which, in the opinion of our management, have been prepared on substantially the same basis as the audited financial statements included in this report. The data for any quarter is not necessarily indicative of the revenues that may be expected for any future period. The percentage data shows revenues and expenses as a percentage of total revenues.

	Three Months Ended							
	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003	Dec. 31, 2003	Mar. 31, 2004	Jun. 30, 2004	Sept. 30, 2004	Dec. 31, 2004
	Adjusted amounts**				reported amounts*			
	Unaudited							
	(In thousands, except number of subscribers data)							
Revenues:								
Access revenues	37,180	36,424	36,151	37,151	39,124	40,537	38,571	38,153
International telephony services	-	-	-	-	-	-	2,092	7,289
Other revenues	6,725	7,531	8,181	10,299	11,852	12,662	13,629	15,668
Total revenues	43,905	43,955	44,332	47,450	50,976	53,199	54,292	61,110
Cost and expenses:								
Cost of revenues	24,267	23,468	22,797	22,339	22,566	21,625	25,344	27,285
Selling and marketing expenses	9,624	9,917	9,843	12,009	14,915	17,370	20,462	20,408
General and administrative expenses	5,144	5,408	5,478	5,878	5,830	5,481	6,572	6,375
Total costs and expenses	39,035	38,793	38,118	40,226	43,311	44,476	52,378	54,068
Operating income	4,870	5,162	6,214	7,224	7,665	8,723	1,914	7,042
Financing income (expenses), net	(1,058)	(5,721)	3,695	(151)	460	(549)	342	(131)
Other income (expenses), net	(4)	(12)	(2,587)	11	(642)	(856)	54	367
Net income (loss) after financing expenses	3,808	(571)	7,322	7,084	7,483	7,318	2,310	7,278
Income tax (expenses) benefit	-	2,465	(354)	(176)	(519)	(782)	(240)	1,842
Net income after income tax	3,808	1,894	6,968	6,908	6,964	6,536	2,070	9,120
Company's share in net loss of investees	(278)	(459)	(48)	(753)	(398)	(210)	105	107
	3,530	1,435	6,920	6,155	6,566	6,326	2,175	9,227

Net income from continued operations								
Company's share in net loss of investees from discontinued operations	(414)	(1,385)	(878)	(1,060)	(576)	(675)	(695)	(2,817)
Net income	3,116	50	6,042	5,095	5,990	5,651	1,480	6,410
Number of subscribers (at the end of the period):								
Residential subscribers	307,136	305,314	305,261	312,256	318,889	322,863	324,035	339,146
Business subscribers	1,946	2,128	2,333	2,600	2,879	3,016	3,142	3,510

* With respect to discontinuance of adjustment to the effect of inflation as from the CPI of December 2003.

** Amounts adjusted to reflect inflation in terms of NIS at December 31, 2003.

	Three Months Ended							
	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003	Dec. 31, 2003	Mar. 31, 2004	Jun. 30, 2004	Sept. 30, 2004	Dec. 31, 2004
	(As percentage of total revenues)							
Revenues:	100%	100%	100%	100%	100%	100%	100%	100%
Access revenues	85	83	82	78	77	76	71	62
International telephony services	-	-	-	-	-	-	4	12
Other revenues	15	17	18	22	23	24	25	26
Total revenues	100	100	100	100	100	100	100	100
Costs and expenses:								
Cost of revenues	55	53	51	47	44	41	47	45
Selling and marketing expenses	22	23	22	25	29	33	38	33
General and administrative expenses	12	12	12	12	11	10	12	10
Total costs and expenses	89	88	85	84	84	84	97	88
Operating income	11	12	15	16	16	16	3	12
Financing income (expenses), net	(2)	(13)	8	-	1	(1)	1	-
Other income (expenses), net	-	-	(6)	-	(1)	(2)	-	1
Net income (loss) after financing expenses	9	(1)	17	16	16	13	4	13
Income tax (expenses) benefit	-	6	(1)	-	(1)	(1)	-	3
Net income after income tax	9	5	16	16	15	12	4	16
Company's share in net loss of investees	(1)	(1)	-	(2)	(1)	-	-	-
Net income from continued operations	8	4	16	14	14	12	4	16
Company's share in net loss of investees from discontinued operations	(1)	(3)						