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INTERNET GOLD GOLDEN LINES LTD
Form 20-F
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 20-F

[] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934

or

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2004

or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-30198

INTERNET GOLD - GOLDEN LINES LTD.
(Exact Name of Registrant as Specified in Its Charter
and Translation of Registrant's Name Into English)

ISRAEL
(Jurisdiction of
Incorporation or Organization)

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

Securities registered or to be registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Ordinary Shares, NIS 0.01 Par Value
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d)
of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of
capital or common stock as of the close of the period covered by the annual
report:

Ordinary Shares, par value NIS 0.01
as of December 31, 2004..... 18,431,500

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes [X] No []

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Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 [] Item 18 [X]

INTRODUCTION

Internet Gold - Golden Lines Ltd. is principally an Internet access business. 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. Since our public offering in August 1999 until July 2001, our ordinary shares were listed on the NASDAQ Stock Market (symbol: IGLD), when the listing of our ordinary shares was transferred to the NASDAQ SmallCap Market. Beginning in February 2005, our shares are again listed on the NASDAQ National Market. Since March 2005, our shares have been traded on the Tel Aviv Stock Exchange, or TASE, as well. In April 2005, we completed an offering of convertible debentures and options, that are traded on the TASE, through the TASE. The offering was made exclusively in Israel, to Israeli residents. As used in this annual report, the terms "we," "us" and "our" mean Internet Gold - Golden Lines Ltd. and its subsidiaries, unless otherwise indicated.

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results.

Statements which use the terms "anticipate," "believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions are intended to identify forward looking statements. 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 results, 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. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3D. "Key Information - Risk Factors"

Our consolidated financial statements appearing in this annual report are prepared in New Israeli Shekels, or NIS, and in accordance with the generally accepted accounting principles of the Israeli GAAP. All references in this

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annual report to "dollars" or "\$" are to U.S. dollars and all references in this annual report to "NIS" are to New Israeli Shekels.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data for and as of the five years ended December 31, 2004, are derived from our audited consolidated financial statements which have been prepared in accordance with Israeli GAAP. The selected consolidated financial data as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements and notes included elsewhere in this annual report. The selected consolidated financial data as of December 31, 2002, 2001 and 2000 and for the years ended December 31, 2001 and 2000 have been derived from audited consolidated financial statements not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5. "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

The translation of NIS amounts into 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).

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	YEAR ENDED			
	2000	2001	2002	2003
	NIS	NIS	NIS	NIS
	(In thousands, except as otherwise indicated)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
ISRAELI GAAP INFORMATION				
Revenues:				
Access revenues	119,848	139,850	156,336	142,000
International telephony service	-	-	-	-
Other revenues	19,684	48,473	27,982	30,000
	139,532	188,323	184,318	172,000
Costs and expenses:				
Cost of revenues	95,335	116,135	99,564	99,000
Selling and marketing expenses	73,014	51,299	37,125	40,000
General and administrative expenses	46,844	38,884	21,209	20,000
	215,193	206,318	157,898	159,000
Income (loss) from operations	(75,661)	(17,995)	26,420	13,000
Financing (expenses) income, net	3,842	7,308	2,151	(1,000)
Other (expenses), net	(21)	(2,332)	(3)	(1,000)
	(71,840)	(12,019)	26,384	10,000

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Income (loss) from continuing operations	(71,840)	(13,019)	28,568	1
Income tax benefits, net	-	-	-	-
	-----	-----	-----	-----
Income (loss) after income tax	(71,840)	(13,019)	28,568	1
Company's share in net loss of investees from				
continued operations.....	(2,193)	(682)	(1,530)	(
Minority interest in loss of a subsidiary	1	963	-	-
Loss of a subsidiary which the Company did not				
intend to bear	-	383	-	-
	-----	-----	-----	-----
Income (loss) from continued operations	(74,032)	(12,355)	27,038	1
Loss from discontinued operations	(7,355)	(8,843)	-	-
Company's share in loss of investees from				
discontinued operations	-	-	(7,080)	(
	-----	-----	-----	-----
Net income (loss)	(81,387)	(21,198)	19,958	1
	=====	=====	=====	=====
Income (loss) per share, basic and diluted				
Net income (loss) per NIS 0.01 per value of shares (in				
NIS) from continued operations	(4.02)	(0.67)	1.47	-
Net income (loss) per NIS 0.01 per value of shares (in				
NIS) from discontinued operations	(0.40)	(0.48)	(0.39)	-
	-----	-----	-----	-----
	(4.42)	(1.15)	1.08	-
	-----	-----	-----	-----
Weighted average number of shares outstanding (in				
thousands).....	18,432	18,432	18,432	1
	=====	=====	=====	=====

US GAAP INFORMATION

Net income (loss) from continued operations	(70,909)	(6,232)	27,051	1
Net Loss - discontinued operations	(12,960)	(17,649)	(21,128)	(
Net income (loss)	(83,869)	(23,881)	5,923	1

AS AT DECEMBER

2000 2001 2002 2003

NIS NIS NIS NIS

(In thousands, except as otherwise indicated)

CONSOLIDATED BALANCE SHEETS DATA:

ISRAELI GAAP INFORMATION

Total assets	251,765	228,322	169,052	21
Working capital	41,743	48,615	80,904	7
Total liabilities	146,760	144,510	65,284	9
Total shareholders' equity	105,005	83,811	103,768	11

US GAAP INFORMATION

Total assets	248,249	219,738	199,101	24
Total shareholders equity	105,024	79,429	85,881	10

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* The translation of NIS, amounts into 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).

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods and dates indicated, certain information regarding the Bank of Israel representative rate of exchange for dollars, expressed in NIS per one dollar. The representative rate is the average between the buying rate and the selling rate of exchange.

Such rates are provided solely for the convenience of the reader and should not be construed as a representation that NIS amounts actually represent such dollar amounts or that such NIS amounts could have been, or could be, converted into dollars at that rate or at any other rate. We do not use such rates in the preparation of our consolidated financial statements included elsewhere herein. See Note 2 to the consolidated financial statements included elsewhere in this Form 20-F.

Period -----	Average (1) -----	High -----	Low -----
Year ended December 31, 2000.....	NIS 4.078	NIS 4.198	NIS 3.967
Year ended December 31, 2001.....	4.203	4.416	4.067
Year ended December 31, 2002.....	4.736	4.994	4.416
Year ended December 31, 2003.....	4.545	4.924	4.283
Year ended December 31, 2004.....	4.478	4.634	4.308

(1) The average of the representative rates on the last business day of each month during the relevant period.

	High NIS -----	Low NIS -----
2004 ----		
December.....	4.374	4.308
2005 ----		
January.....	4.414	4.352
February.....	4.392	4.357
March.....	4.379	4.299
April.....	4.395	4.360
May.....	4.416	4.348

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On June 1, 2005, the representative rate was NIS 4.421 = \$1.00.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

INVESTING IN OUR ORDINARY SHARES INVOLVES A HIGH DEGREE OF RISK AND UNCERTAINTY. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW BEFORE INVESTING IN OUR ORDINARY SHARES. OUR BUSINESS, PROSPECTS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED DUE TO ANY OF THE FOLLOWING RISKS. IN THAT CASE, THE VALUE OF OUR ORDINARY SHARES COULD DECLINE, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

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 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

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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.

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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, or ISPs, and portal operators 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 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., or Netvision, and Xfone 018 Ltd., or Xfone, new international telephony services providers in Israel, 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.

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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.

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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.

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 (Electronic Commerce) Ltd., or Gold Trade, or MSN Israel Ltd., 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 market is highly competitive. The intense competition and the fact that the customers are generally sophisticated customers with little loyalty, required 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

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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 payment, makes 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.

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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 has been coupled with intense competition between all of the ISPs in Israel, which resulted in price reductions for services offered by all of the ISPs. Due to this tough 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

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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:

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- o the success of our joint marketing programs, advertising and promotional efforts; and
- o 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

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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.

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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 June 1, 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

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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.

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.

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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 I.T.C. (1995) Ltd, or 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

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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 was developed and is 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 decreases, it might adversely impact our ability to properly maintain our system and therefore have direct affect on our service.

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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 destinations 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 April 2005 we raised NIS 220 million (approximately \$51.1 million) in an offering of convertible debentures and options through the TASE. However, 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

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Israel and be responsible for its operating losses and capital expenditures. We and Microsoft each have 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 costs could be and if MSN will be able to bear such costs. 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.

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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

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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 or content co-branded sites with third parties, 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.

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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 and our subsidiaries and affiliates, hold numerous Internet domain names. 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

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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.

COMPLIANCE WITH THE CHANGING CORPORATE GOVERNANCE REGULATIONS AND PUBLIC DISCLOSURE REQUIREMENTS MAY RESULT IN ADDITIONAL EXPENSES.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission regulations and NASDAQ Stock Market rules, are creating uncertainty for companies such as ours. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities, which could harm our operating results and business prospects.

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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., or Euronet Communications, holds 68.81% of our ordinary shares. Euronet Communications is a wholly owned subsidiary of Eurocom Communications Ltd., or Eurocom Communications, which is a 50.33% owned subsidiary of Eurocom Holdings Ltd., or Eurocom Holdings (an additional 0.67% interest is owned by Mr. Shaul Elovitch, our chairman, and the chairman of the board of directors of Eurocom Holdings). 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 our March 2005 offering, including:

- o the composition of our board of directors including the appointment and removal of officers;
- o mergers or other business combinations involving us;
- o acquisitions or dispositions of our assets;
- o future issuances of our ordinary shares or other securities;
- o our incurrence of debt;
- o various agreements, amendments, waivers and modifications to the agreements between us and Eurocom Communications, Eurocom Holdings and their affiliates; and
- o payments of dividends on our ordinary shares.

THERE MAY BE CONFLICTS OF INTEREST BETWEEN OUR CONTROLLING SHAREHOLDER AND US.

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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.

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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 IN THE FUTURE.

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:

- o quarterly variations in our operating results;
- o operating results that vary from the expectations of securities analysts and investors;
- o changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- o changes in market valuations of other Internet or online service companies;
- o announcements of technological innovations or new services by us or our competitors;
- o announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- o changes in the status of our intellectual property rights;
- o announcements by third parties of significant claims or proceedings against us;

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- o additions or departures of key personnel;
- o future sales of our ordinary shares; and
- o 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.

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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 of 1933 with respect to their shares, giving them rights to:

- o 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
- o 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:

- o discourage potential acquisition proposals;

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

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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 75% majority 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 Israeli 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 Israeli 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 Israeli 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 Israeli 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 Israeli 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 our shares for shares of a foreign corporation to immediate taxation in case of gain to such shareholder.

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

WE MAY NOT BE ABLE TO MAKE OUR DEBT PAYMENTS IN THE FUTURE.

In March 2005, we offered securities to the public in Israel, including convertible debentures. Our ability to meet our debt obligations will depend on whether we can successfully implement our strategy, as well as on financial,

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competitive, legal, regulatory and technical factors, including some factors that are beyond our control.

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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 the debentures in full at maturity. Our ability to refinance our indebtedness, including the debentures, will depend on, among other things:

- o our financial condition at the time;
- o restrictions in agreements governing our debt; and
- o 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, which would permit the holders of our debentures 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 continuation of, or 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 had, and may in the future continue to have, an adverse impact on our operations, our financial results or the expansion of our business. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or

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our operations.

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 annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. 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.

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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 deteriorate.

OUR BUSINESS MAY BE IMPACTED BY NIS EXCHANGE RATE FLUCTUATIONS.

Most of our communications and advertising costs are quoted in 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 hedges 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 THE ACQUISITION OF OUR COMPANY DIFFICULT, 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

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holders of our ordinary shares are governed by our memorandum of association, 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, shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations 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. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

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ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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 annual report on Form 20-F.

We began our Internet access business in January 1996 under the brand name "Internet Gold." We currently 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 temporary license, for a trial offering of local telephony services in Israel. The license expires on November 30, 2005. Due to disagreements between the Ministry of Communications and Bezeq, we have

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not been able to act under the license.

We have six subsidiaries:

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's 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.

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

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 notice is given by either party).

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 is engaged 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. IGI is also a distributor of supplemental services in the international telephony market, including pre-paid and calling card services.

Gold Trade - In December 2004, we purchased all the shares of Gold-Trade not then held by us, including from Eurocom Marketing Ltd, our affiliated company. Gold Trade provides e-commerce services on its "P-1000" 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 51% of the rights in one of Israel most popular interactive book shop sites - www.dbook.co.il.

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We made capital expenditures of NIS 23.8 million (\$5.5 million) (not including the purchase of rights of use of the international lines) in the year ended December 31, 2004, NIS 11.9 million (\$2.8 million) in the year ended December 31, 2003 and NIS 12.6 million (\$2.9 million) in the year ended December 31, 2002. Of the NIS 23.8 million of capital expenditures in 2004, an amount of NIS 18.3 million (\$4.2 million) was invested in new network equipment and computers, NIS 4.2 million (\$1 million) in furniture and office equipment and NIS 1.3 million (\$0.3 million) in leasehold improvements.

During 2005, we expect to incur capital expenditures of approximately NIS 13 million (\$3 million) (not including the purchase of rights of use of the international lines), mostly for network equipment and computers. As of June 1, 2005, we are bound by contractual undertakings for \$0.28 million of such amount, mostly for network equipment and computers.

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B. BUSINESS OVERVIEW

INDUSTRY OVERVIEW

INTERNET SERVICES

GROWTH OF THE INTERNET AND E-COMMERCE. The Internet is an increasingly significant global medium for communications, information and online commerce. The Internet has grown rapidly in recent years both in terms of the number of users and the number of websites. According to a Yankee Group survey, European broadband users already spend more time with the Internet than watching TV. For many businesses, the Internet has created a new communications and sales channel, enabling large numbers of geographically dispersed organizations and consumers to be reached quickly and cost-effectively.

EVOLUTION OF THE INTERNET SERVICES MARKET. Today, Internet services consist primarily of Internet access, web hosting, co-location services, e-commerce solutions and e-advertising. Access services represent the means by which ISPs interconnect business and consumer users to the resources on the Internet. Access services vary from dial-up and broadband access for individuals and small businesses to high-speed dedicated access primarily for larger organizations, and can range from simple dial-up access to highly organized, personalized access coupled with value-added services. ISPs vary widely in geographic coverage, subscriber focus and the nature and quality of services provided to subscribers. In our experience, consumers are generally focused on speed and reliability of access, ease of use, subscriber service and price as they evaluate an ISP. In addition to speed and reliability of access, we believe many business subscribers want all their Internet-based requirements, such as access, web hosting, content and services offering and e-commerce applications, met by a single provider that can provide integrated Internet solutions, including a single billing statement for all services.

An increasing number of companies provide information and conduct e-commerce over the Internet, and as a result, Internet operations are increasingly becoming critical to the commercial and communications operations of many enterprises. However, many businesses lack the resources and expertise to develop, maintain and enhance, on a cost-effective basis, the facilities and network systems necessary for successful Internet access and operations. Accordingly, businesses increasingly seek outsourcing arrangements to enhance their website reliability and performance, provide continuous operation of their

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Internet solutions and reduce related operating expenses.

As a result, there is increasing demand for ISPs to offer "turnkey" Internet services. An increasing number of ISPs are beginning to supplement their basic Internet access services with a variety of commercial services that facilitate e-commerce, including web hosting, server co-location, remote account management, and other value-added services. These services expand an ISP's potential revenue streams from basic monthly access fees to other fees, including set-up and maintenance charges.

THE ISRAELI MARKET. One of Israel's most important resources is its experienced and highly educated work force (one third of Israel's labor force has higher education qualifications). Israel has a population of more than 6.8 million people and approximately 2 million households. With a highly educated population, Israel has developed an export-oriented, technology-based, industrialized economy. The Israeli market adapts quickly to new technologies, especially in the communications technologies field. According to the Israeli Ministry of Communications, in 2004 Israel had a cellular penetration rate of 95% and a multi-channel television (cables and satellite) penetration of approximately 72%.

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Today, Internet services in Israel consist primarily of Internet access, web hosting, co-location services, content services, e-advertising and e-commerce solutions. Access services vary from dial-up and broadband access for individuals and small businesses to high-speed dedicated access primarily for larger organizations, and can range from simple dial-up access to highly organized, personalized access coupled with value-added services.

The Israeli market experienced an impressive growth of the broadband Internet market, which had more than tripled to 640,000 subscribers in 2003, since 2002. In 2003, 430,000 new subscribers were added, more than twice the number of new subscribers in 2002. In 2004, there was a 50% increase in the number of broadband subscribers compared to 2003, and at the end of 2004 there were 940,000 broadband users. The Ministry of Communications reported that the broadband access penetration rate for households had risen from 30% in 2003 to 43% in 2004, giving Israel one of the highest rates of broadband access in the world.

This growth was mainly attributed to attractive prices, competition and marketing efforts by ISPs and competition between Internet infrastructure providers. This competition led to massive advertising. The combined effect was the rapid recruitment of new subscribers for broadband Internet, some of whom did not have Internet access before at all, although most migrated from dial-up to broadband service.

INTERNATIONAL TELEPHONY SERVICES

Since the opening of the international telephony market in Israel to competition in 1996, only three companies (Bezeq International, 012 Golden Lines and Barak) have provided international telephony services in Israel. The market, estimated to be two billion minutes and \$440 million per year, was equally divided between the three companies.

On June 2, 2004, we received a license to provide international telephony services in Israel and launched our international telephony services on August 7, 2004. In November and December 2004, Netvision and Xfone launched

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international telephony services in Israel.

The international telephony market is highly competitive and all six providers had to offer low prices in order to attract or retain subscribers and minutes. In order to obtain a share in this market, we had to be aggressive, with low prices and massive use of advertising.

In addition to the retail international telephony market in Israel, we are also active in the global wholesale market providing call termination services to more than 30 international carriers.

OUR STRATEGY

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 ISPs, 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 224% increase in the number of broadband customers in 2003 as compared to the year 2002. We have continued this policy during 2004. This strategy yielded a 54% increase in the number of broadband customers in 2004 as compared to 2003. Due to price reduction, caused by the aggressive competition in the broadband and the international telephony markets and our marketing efforts to attract customers, our profitability may be impaired.

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On August 7, 2004, we launched our international telephony services. Our penetration strategy was to use our customer base and Internet channels in order to penetrate the international telephony market, offering better pricing schemes than the ones offered by our competitors. The fierce competition, which resulted in decreasing prices with growing advertising expenses, may impair our profitability.

SERVICES

We offer a wide range of Internet access alternatives to meet the needs of our residential and business subscribers. We also offer a broad array of basic and value-added Internet services to attract and retain subscribers, increase usage and create additional revenue streams. By offering high-quality, price-competitive Internet access and related services, we seek to develop both our residential and business subscriber base.

Since August 2004, we offer international telephony services, both to subscribers and to subscribers of other providers, both residential and business. We currently provide international direct calls from Israel abroad. We intend to expand our services in the near future, by offering supplemental services, such as pre-paid services, post-paid services and 1-800 services.

INTERNET ACCESS. We offer our high-speed continuous access connections employing digital leased lines at various bandwidths to meet customers' needs, as well as ADSL and cable TV access services. In addition, we offer dial-up modem subscribers Internet access via our 6 points of presence at speeds of up to 56Kbps for regular analog telephone lines or at 64Kbps (or 128Kbps) for Integrated Services Digital Network or ISDN. The following table summarizes several of our most popular Internet access packages in Israel:

ACCESS SERVICES	SUMMARY DESCRIPTION	TARGET CUSTOMERS	CURRENT PRICING
ADSL Accounts	Broadband services using ADSL technology.	Small business subscribers and residential users.	Average monthly fee depending on the service.
Cable Accounts	Broadband services using cable technology	Small business subscribers and residential users.	Monthly fee of NIS depending on the service.
Basic Access Account Standard Plan	Internet access using modems to dial-up our network.	Small business subscribers and residential users.	Unlimited Package 34.9. Hour Based Package NIS 29.9 for four hours. Additional hours cost 1.50 per hour.
ISDN Dial-up Accounts	Basic Account with digital service, which provides faster access, also known as ISDN access.	Small business subscribers and residential users.	Monthly fee of NIS 34.9.
64Kbps and up leased Frame Relay Line	Twenty-four hour high speed dedicated Internet access to carry data traffic at a speed of 64Kbps and up.	Business subscribers.	Minimum monthly fee for services provided.
Dial-Up Network (ISDN, ADSL & Cables)	Enterprises can connect their entire PC network to the Internet via one router (analog or digital).	Business subscribers.	Monthly fee of \$29.95 plus the number of networked devices per office and the service level.

VALUE-ADDED SERVICES. We introduced a variety of enhanced, value-added services that enable our residential and business subscribers to obtain high-speed Internet access, outsource their Internet facilities and systems requirements and undertake e-commerce initiatives. The following table summarizes the current offering of residential and business value-added services:

BUSINESS SERVICE	SUMMARY DESCRIPTION	TARGET CUSTOMERS
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Commercial Website Hosting and Server Co-Location	Through this service, a subscriber's website is "hosted" on our servers or its computer is installed in our network operations center. In either case, the subscriber benefits from our existing management facilities and receives a high-speed, full-time connection to the Internet; direct access to our high speed network; use of our backed-up power supply, network monitoring system and daily data back-up; a secure climate-controlled environment; and 24/7 technical support. All access to these websites via our servers or the co-located servers are processed on our servers.	Business subscribers
Global Roaming	Our systems are connected to the iPass roaming system, which enables our subscribers to access their Internet accounts while on the road, without incurring long distance access charges. iPass provides secure connections to corporate networks, e-mail and the Internet with over 20,000 available hot spots around the world.	Business and residential subscribers.
Integrated Expert services	Installing and maintaining LAN & WAN infrastructures with full technical support.	Business subscribers
Security services and products	Penetration tests for networks and applications, security assessments, internet fraud investigations and security maintenance, content filtering service. Installing and maintaining firewall machines.	Business subscribers
Unified Messaging	Allows a subscriber to receive faxes from anywhere to his mailbox at Internet Gold.	Business and residential subscribers.
Virtual Magazines	Variety of virtual magazines in many different fields (news, economics, children, food, sports, computers, lifestyle and leisure, etc.).	Residential subscribers
"Galim" - The educational website www.galim.org.il	Galim is a leading educational website in Israel. Galim addresses elementary school children (6 to 13 years old) and their parents, and offers experienced and differentiated learning, access to varied information and develops skills related to learning and researching through the Internet.	Residential subscribers

BUSINESS SERVICE	SUMMARY DESCRIPTION	TARGET
Ynet Encyclopedia	Ynet is the first encyclopedia in Hebrew on the Internet, which is updated on a	

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daily basis. Ynet encyclopedia includes various information in different formats, including video, sound and thousands of pictures.

Gold Mail	This service allows a subscriber to gain access to his e-mail from any computer.	Business and residential subscribers.
Vgames	Vgames.co.il, Israel's first and largest gaming website, operated since October 1999 by our wholly owned subsidiary, Gold Mind. It supplies Israeli gamers with daily information about the interactive entertainment industry: news, previews, reviews and downloads. Since April 2001, Vgames operates an online gaming community called "Vgamers Club," where paying members receive a semi-weekly online gaming magazine.	Residential subscribers.
Anti-Virus	Integrated anti-virus service which protects the mail box from virus threats. The anti-virus program detects and removes viruses from e-mail attachments.	Business and residential subscribers.
Anti-Spam	This service enables users to deal better with the proliferation of "junk mail" (spam), saves time and subscribers. prevents waste of storage space.	Business and residential subscribers.
Web Sites	Variety of paid portals and websites in varied topics (sports, children, leisure & life style).	Residential subscribers.
Content Filtering	An advanced and effective content service, enabling parents to control their children's exposure to adult and other harmful content on the web, by using a personal password login.	
On Line Backup	This service enables users to automatically backup files and save them for long periods with the ability to retrieve them immediately.	Business and residential subscribers.

INTERNATIONAL TELEPHONY SERVICES. We offer different packages of international telephony alternatives to meet the needs of our residential and business subscribers. The following table summarizes our most popular international telephony packages:

BUSINESS SERVICE	SUMMARY DESCRIPTION	TARGET
Minute based packages	Our regular packages - the subscriber pays per usage, for the minutes talked, without any discounts or monthly fees.	Residential Subscribers
A Monthly fee plan of	The subscriber buys a number of minutes per month	Business and Residential

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minutes for a monthly fee. For additional minutes, the subscriber pays a discounted fee.

Tailored packages that meet the subscriber's needs	The subscriber pays per minute. We tailor special prices for the subscriber to meet its needs.	Business subscribe
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We intend to expend our services and to offer supplemental services in the near future, such as pre-paid services, post-paid services and 1-800 services.

E-ADVERTISING AND CONTENT. Through MSN Israel, we offer users personalized services using MSN features and varied Internet content, such as four of Microsoft Internet's leading platforms - "Hotmail," "Messenger," "Passport," and "MSN Search," an Internet search engine, as well as news and a wide variety of e-advertising services. Through Start-Net, zahav.ru and other portals, we also offer a vast variety e-advertising services and content.

E-COMMERCE. Through Gold Trade, we offer a vast variety of products and services by way of electronic tenders, as well as online shopping and transactional opportunities for a wide range of other products and services. We emphasize expanding and refining our services to enhance our subscribers' Internet experience. Our technical staff is engaged in a variety of technical development and service enhancement activities and continuously evaluates new and innovative ideas and third-party software products and technology for potential incorporation into our systems and services. We also regularly update and expand the online services provided through our portals, organize content and develop online guides, help screens and other user services and resources.

CUSTOMERS

Generally, we have been successful in attracting and acquiring new subscribers and retaining existing subscribers. Subscribers for our Internet access services are those customers to whom we provide broadband, dial-up or dedicated Internet access. As of December 31, 2004, we had a business customer base of 3,510 subscribers and of 339,146 residential and SOHO subscribers, representing a 35% growth rate in our business subscribers and a 9% growth rate in our residential and SOHO subscribers. Our broadband subscriber base grew by 54%. Our monthly churn rate increased from 1.4% in 2003 to an average of approximately 1.9% in 2004. Churn rate represents the number of subscribers canceling or disconnecting during a month as a percentage of the number of subscribers at the beginning of the month.

Since August 2004, we have offered international telephony services and have been successful in acquiring subscribers. Subscribers to the international telephony services are not necessarily customers of our Internet access services. As of December 31, 2004 we had 86,300 subscribers for our international telephony services. As of May 31, 2005 our international telephony subscriber base has increased by 42%.

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CERTAIN STRATEGIC AND OTHER RELATIONSHIPS.

As part of our strategy, we have entered into strategic and other relationships with reputable Israeli and international companies. Our principal relationships are as follows:

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MICROSOFT CORPORATION. MSN Israel is 50.1% owned by us and 49.9% owned by Microsoft Corporation. The MSN Israel portal provides the same look and feel as MSN Worldwide and uniquely combines leading Israeli content and e-commerce providers and integrates them with Microsoft's leading network services.

MARKETING AND SALES

Our marketing and sales strategy for both our Internet and international telephony customers combines brand building and demand increasing advertising with multi-channel marketing. We use multiple distribution channels: telemarketing centers, authorized dealers and store chains, cooperation with business partners, door-to-door sales and mass distribution. We continually evaluate the effectiveness of our sales and marketing programs, primarily by analyzing sales statistics such as incoming call volumes, sales volumes, and incentive offer response, in order to refine our marketing campaigns.

MARKETING OF INTERNET AND ACCESS SERVICES

MARKETING TO RESIDENTIAL SUBSCRIBERS

Our integrated marketing and sales efforts for residential customers include the following elements:

MARKETING ACTIVITIES. We engage in a variety of marketing and promotional activities to stimulate awareness of our broadband access services. These efforts are directed both to consumers who have not previously subscribed to Internet access services and to Internet users who may switch to our services after learning of their affordability and reliability. We principally employ targeted high-visibility media, including television, radio, Internet and printed media advertising, to solicit new subscribers. Our advertisements include a toll free 800 number (for regular phones) to allow potential customers to contact our sales staff.

We believe that our delivery of superior customer service and support and our associated high levels of customer satisfaction have led to positive customer referrals. Our sales staff handles calls from prospective subscribers and follows up on leads generated by current service promotion packages, advertising at unique events and by proprietary database searches specific to particular service promotions.

We engage in several activities to increase customer usage of our services by upgrading their surfing packages and offering them a variety of value added services and products. Our marketing and sales staff uses our customer database in order to approach relevant segments and offer them incentives to upgrade their packages or add wireless residential networks. Our after-sale activities include offering value-add services such as anti-virus or anti-spam services as well as a variety of newsletters and content services such as Vgames.

We strongly believe that as a leading ISP we should focus on enriching customers' experiences. As such, our TV activities currently focus on content marketing via carefully chosen, humoristic programs and specially devised Internet sites supporting this content. We operate a successful humor channel under the MSN portal (www.smile.net.il) to promote the fun aspects of broadband and publish, by mail, a colorful and informative monthly newsletter named "Home Page" to our subscribers.

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JOINT MARKETING PROGRAMS. Our channel marketing program involves the promotion of our services by our marketing partners to their own customers. We believe that the subscribers obtained through our relationships with joint marketing partners accounted for at least 10% of our new subscribers in 2004. These joint marketing programs provide us with distinct advantages, including:

- o ability to gain leverage from the marketing partner's brand through joint advertising and promotions; and
- o cost-savings from contributions from marketing partners to our advertising and promotions budget.

Our marketing partners typically display our applications and logos in their retail stores, distribute our promotional materials with their own products and services, and engage in joint promotion and co-marketing activities with us. Registering a new customer is easily performed through our unique on-line registration web-accessed platform. The sources through which we obtain customers include:

- o Israel's major consumer clubs like IDF personnel (www.mcc.co.il) and Israel's Teachers Union (www.itu.org.il) to which we offer specially tailored Internet packages;
- o home PC retail chains such as BUG (www.bug.co.il) located in the largest shopping malls in Israel, offering our Internet services accompanied with relevant software, hardware and communication products;
- o numerous of stand-alone PC stores that promote our Internet service and are compensated with a success fee; and
- o direct marketing partners, specializing in outbound telemarketing and door-to-door sales.

MARKETING TO BUSINESS CUSTOMERS

In marketing our services to business customers, our integrated marketing and sales approach is based on a one-stop-shop concept with an end-to-end solution for our business customers' communication needs, including:

DIRECT SALES. We offer our products and services through a consultative sales approach, which enables us to better understand customers' needs and provides a variety of bundled Internet, international telephony and IP application and communication solutions. We offer a broad portfolio of data-security solutions, Web sites and servers hosting & co-locations solutions, data VPN and global IP communication solutions as well as professional services and whole system support services 24X7. Our approach is specifically designed to meet the budget and quality specifications of each business customer. We believe that our individualized approach allows us to provide our business customers with comprehensive solutions and superior ongoing support. We employ business sales representatives who have strong technical backgrounds and training. This approach helps us to better understand the needs of each customer's local business community and become familiar with the products, personalities and corporate identities of individual local companies. We also use direct marketing, including direct mail, telemarketing, seminars and trade show

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exhibits to target these business customers.

MARKETING PARTNERS. We have entered into business-oriented product development and marketing alliances with partners. In addition we have built a network of authorized dealers, mainly business computer network integrators, which generates a considerable amount of business leads and contracts.

CUSTOMER RETENTION PROGRAM. We have a team of experienced representatives specializing in residential and business customer retention. This team handles all incoming calls from customers who wish to cancel services or disconnect them, and utilizes a series of specially designed "retention tools" to help the representatives convince customers to stay connected.

MARKETING OF INTERNATIONAL TELEPHONY SERVICES

We launched our international telephony services in August 2004 and have since acquired an approximately 5% market share. Our marketing and sales strategy for this market combines brand building and increasing demand through advertising and multi-channel marketing. We make use of all existing channels originally developed for Internet subscribers as well as leverage our existing Internet subscriber base. In addition to continuous evaluation of our sales and marketing programs, we also employ in-depth analysis of customer activity and implement usage increase promotions directed at existing customers.

MARKETING TO RESIDENTIAL SUBSCRIBERS. Our integrated marketing and sales efforts for residential customers include the following elements:

MARKETING ACTIVITIES. Our marketing efforts in this area are directed primarily at consumers who have not previously subscribed or made use of our services, and may switch after learning about our price plans and honesty policy. Our activities focus on below-the-line promotions, utilizing proprietary databases and a concentrated effort toward niche sectors, such as the Russian-immigrant community. We also employ targeted media, including television, radio, Internet and carefully selected printed media advertising, to solicit new subscribers. Our advertisements include a toll free 800 number (for non-cellular phones) to allow potential customers to contact our sales staff.

We continue to deliver the same customer service that generated satisfaction among our Internet customers. Our sales staff handles calls from prospective subscribers and follows up on leads generated by current service promotion packages and by analysis of proprietary databases.

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We engage in several activities to increase customer usage of our services by upgrading their subscription from simple registration to monthly payment-based programs. Our marketing and sales staff is using our customer database to approach relevant segments and offer them incentives to upgrade their packages.

JOINT MARKETING PROGRAMS. We have been able to leverage our joint marketing programs to the benefit of our international telephony services, such as Israel Defense Forces personnel (www.mcc.co.il) and Israel's Teachers Union (www.itu.org.il) to which we offer specially tailored packages. We also added the country's leading cellular service providers to our list of on-going partnerships and created new ventures with various new-immigrant organizations.

We also employ our current Internet sales channels, to create new

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telephony subscribers. These include stand-alone stores that promote our service for a success fee, as well as direct sales partners who specialize in outbound telemarketing and door-to-door sales.

We plan to leverage our customer base as well as our partners and Internet channels in order to further penetrate to the international telephony market. We also intend to offer better pricing schemes than the ones offered today by our competitors and will provide new services to customers.

MARKETING TO BUSINESS SUBSCRIBERS. In marketing our international telephony services to business customers, our efforts focus on below-the-line promotions, utilizing proprietary databases and a concentrated effort toward the existing business customers and special niche markets, like export and import businesses, embassies, etc. We also use targeted media, including selected printed media advertising, to solicit new subscribers. Our advertisements include a toll free 800 number (for non-cellular phones) to allow potential customers to contact our sales staff.

We provide the same level of customer service to our international telephony subscribers as to our Internet subscribers. Our sales staff handles calls from prospective subscribers and follows up on leads generated by current service promotion packages, and by analysis of proprietary databases.

Our marketing and sales staff uses our customer database to approach relevant segments and offer them incentives to upgrade their packages.

We engage in several activities to increase customer usage of our services by upgrading their subscription and by bundling different services together (for example, Internet service and international telephony service.)

SUBSCRIBER SERVICE

We have a strong commitment to subscriber satisfaction. Subscriber satisfaction has contributed to our efforts to keep churn rates low and achieve subscriber growth through subscriber referrals. We believe that the key factors contributing to subscriber satisfaction are network performance-primarily the reliability and speed of the Internet access service-subscriber technical support and the range and quality of our products and services.

TECHNICAL SUPPORT. Knowledgeable and experienced support teams able to efficiently diagnose subscriber problems and prescribe corrective measures staff our technical support team. Technical support is available to all subscribers, 24 hours-a-day, seven days-a-week, 364 days a year. In order to efficiently service the different levels of support required, we maintain two separate technical support telephone banks staffed by two separate groups of technical support representatives to field calls from residential and business subscribers, respectively. In addition, our technical support staff for