INTERNET GOLD GOLDEN LINES LTD
Form 20-F
June 30, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

o 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, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report ___________

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 49277, Israel
(Address of principal executive offices)

Doron Turgeman, +972-3-9240000 (phone), +972-3-9399832 (fax)
1 Alexander Yanai Street, Petach Tikva 49277, Israel
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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
Ordinary Shares, NIS 0.01 Par Value	NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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 per share ....17,991,902 (as of December 31, 2009)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other o

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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INTRODUCTION

We are a leading communications group in Israel. Our shares are listed on the NASDAQ Global Market and on the Tel Aviv Stock Exchange, or TASE. Our subsidiaries are B Communications Ltd. (formerly known as 012 Smile.Communications Ltd.) and GoldMind Ltd. (formerly known as Smile.Media Ltd.). As used in this annual report, the terms “we,” “us” and “our” mean Internet Gold - Golden Lines Ltd. and its subsidiaries, “B Communications” means B Communications Ltd., “GoldMind” means GoldMind Ltd., “Eurocom Communications” means Eurocom Communications Ltd., “Bezeq” means Bezeq The Israel Telecommunications Corp., Ltd.; “Pelephone” means Pelephone Communications Ltd., “Bezeq International” means Bezeq International Ltd. and “DBS” or “YES” (the trade name for DBS) means DBS Satellite Service (1998) Ltd.

Our principal subsidiary, B Communications, entered into a share purchase agreement on October 25, 2009, to acquire the controlling 30.44% interest in Bezeq (TASE:BZEQ), Israel’s largest telecommunications provider, from Ap.Sb.Ar. Holdings Ltd. (a consortium of Apax Partners, Saban Capital Group and Arkin Communications), for an aggregate cash purchase price of approximately NIS 6.5 billion (approximately $1.72 billion). On April 14, 2010, B Communications completed the acquisition of 30.44% of Bezeq’s outstanding shares and became the controlling shareholder of Bezeq. In accordance with the terms of the transaction, effective as of the closing of the acquisition, B Communications designated seven directors to replace the Apax-Saban-Arkin Group’s representatives on Bezeq’s Board of Directors, which numbers 13 directors. We began consolidating Bezeq’s financial results into our financial statements effective as of the closing of the acquisition and will begin to report the consolidated results in our 2010 second quarter earnings release.

Prior to January 2010, B Communications offered a wide range of broadband and traditional voice services in Israel, which we refer to in this annual report as the legacy Communications Business. As part of its acquisition of the controlling interest in Bezeq, on November 16, 2009, B Communications entered into an agreement to sell its legacy Communications Business (excluding certain retained indebtedness and liabilities) to a wholly-owned subsidiary of Ampal-American Israel Corporation (NASDAQ: AMPL), or Ampal, for NIS 1.2 billion (approximately $318 million). The sale of B Communications’ legacy Communications Business to Ampal was completed on January 31, 2010, effective as of January 1, 2010.

B Communications changed its name from 012 Smile.Communications Ltd. to B Communications Ltd. on March 16, 2010 in connection with its acquisition of the controlling interest in Bezeq. Since B Communications’ initial public offering in October 2007, its ordinary shares have been listed on the NASDAQ Global Market (symbol:BCOM) and on the TASE. We currently own 76.62% of the ordinary shares of B Communications.

GoldMind is an Internet media company in Israel. As of December 31, 2009, GoldMind had 10 Internet properties in its network, consisting of three eCommerce websites and seven online content websites. GoldMind changed its name from Smile.Media Ltd. to GoldMind Ltd. on March 22, 2010 in connection with the sale of our legacy Communications Business to Ampal and the assignment of the “Smile” trademark to Ampal.

Effective as of January 1, 2009, we adopted International Financial Reporting Standards, IFRS, as issued by the International Accounting Standards Board, or the IASB, replacing the previous reporting standard which was generally accepted accounting principles in the United States. Accordingly, beginning January 1, 2009, we prepare our consolidated financial data according to IFRS as issued by the IASB. Our transition date to IFRS under First Time Adoption of International Financial Reporting Standards is January 1, 2008. Comparative data of our financial statements has been restated to retrospectively reflect the adoption of IFRS. Our consolidated financial statements appearing in this annual report are prepared in New Israeli Shekels, or NIS, and are translated into U.S. dollars at the representative rate of exchange at December 31, 2009 (NIS 3.775 = $1.00). The dollar amounts so presented should not be construed as representing amounts receivable, payable or incurred in dollars or convertible into dollars.

All references in this 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.

(iii)

We have filed trademark applications in Israel for “B Communications” and “GoldMind.” All other registered trademarks appearing in this annual report are owned by their holders.

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. We urge you to consider that statements which use the terms “anticipate,” “believe,” “do not 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. Such forward-looking statements are also included in Item 4 – “Information on the Company” and Item 5 – “Operating and Financial Review and Prospects.” 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 3.D. “Key Information - Risk Factors.”

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

For the years ended December 31, 2008 and 2009, we have prepared our consolidated financial statements in accordance with the International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

For periods prior to December 31, 2007, our consolidated financial statements were prepared accordance with generally accepted accounting principles in Israel, or Israeli GAAP with a reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP. Effective as of January 1, 2008, we prepared our consolidated financial statements in accordance with U.S. GAAP. We have therefore restated our consolidated financial information at and for the year ended December 31, 2008, in accordance with IFRS 1, on “First Time Adoption of IFRS”, and financial information set forth in this annual report for the year ended December 31, 2008, may differ from information previously published. A description of the main differences between U.S. GAAP and IFRS is set forth in Note 29 to our consolidated financial statements.

As a first-time adopter of IFRS effective as of January 1, 2009, we have followed the specific prescriptions described in IFRS 1. The options selected for the purpose of the transition to IFRS are described in the Notes to our consolidated financial statements. Impacts of the transition on the statements of financial position at January 1, 2008, the profit and loss for the year ended December 31, 2008, and the statements of financial position at December 31, 2008, are presented and commented upon in Note 3 to our consolidated financial statements.

IFRS

The tables below at and for the years ended December 31, 2009 and 2008, set forth selected consolidated financial data under IFRS. The selected financial information is derived from our consolidated financial statements, which have been audited by our independent registered public accountants in Israel. The audited consolidated financial statements at and for the years ended December 31, 2008 and 2009 appear in this annual report.

Statement of Operations Data:

	Year Ended December 31, 2008	2009	2009
	(NIS in thousands, except share and per share data)		(US$ in thousands, except share and per share data)
Revenues	1,167,327	1,243,088	329,295
Depreciation and amortization	117,503	98,642	26,130
Salaries	183,917	171,139	45,335
General and operating expenses	741,055	810,963	214,825
Other operating expenses	7,258	2,448	648
Other operating income	(12,839)	–	–
Operating income	130,433	159,896	42,357
Finance expense	138,700	133,908	35,471
Finance income	(27,202)	(131,806)	(34,915)
Income before income tax	18,935	157,794	41,800
Income tax	22,747	57,784	15,307
Net income (loss) for the year	(3,812)	100,010	26,493
Income (loss) attributable to owners of the Company	(18,315)	62,239	16,487
Income (loss) attributable to non-controlling interest	14,503	37,771	10,006
Income (loss) for the year	(3,812)	100,010	26,493
Basic earnings (loss) per share	(0.85)	3.39	0.89
Diluted earnings (loss) per share	(0.89)	3.39	0.89

Statements of Financial Position Data:

	As at December 31, 2008	2009	2009
	(NIS in thousands)		(US$ in thousands)
Cash and cash equivalents	86,090	1,349,759	357,552
Total assets	1,900,904	2,845,606	753,802
Total current liabilities	424,267	1,008,728	267,213
Total non-current liabilities	885,002	1,144,080	303,067

U.S. GAAP:

The table below for the years ended December 31, 2007 and 2006 sets forth selected consolidated financial information under U.S. GAAP, which has been derived from our previously published audited consolidated financial statements for the years ending on such dates.

Statement of Operations Data:

	Year Ended December 31,	
	2006	2007
	(NIS in thousands, except share and per share data)	
Revenues:		
Communications	342,506	1,103,157
Media	65,853	72,789
Total revenues	408,359	1,175,946
Operating expenses:		
Cost of revenues	252,413	802,296
Selling and marketing	75,576	176,250
General and administrative	33,957	69,843
Impairment and other expenses (income), net	12,813	14,589
Total operating expenses	374,759	1,062,978
Operating income	33,600	112,968
Financial expenses, net	20,861	57,533
Gain from issuance of shares in a subsidiary	–	120,310
Income before income taxes	12,739	175,745
Income tax expenses	1,286	50,460
Income (loss) after income tax	11,453	125,285
Minority share in income	(34)	(1,267)
Company’s share in net loss of investees from continued operations	(334)	–
Net income (loss)	11,085	124,018
Earnings per ordinary share - basic		
Net income (loss) per share	0.60	5.74
Weighted average number of shares used in the calculation	18,438	21,617
Earnings per ordinary share - diluted	0.60	5.44
Weighted average number of shares used in the calculation	18,438	24,795

Israeli GAAP:

The table below for the year ended December 31, 2005, sets forth selected consolidated financial information under Israeli GAAP, which has been derived from our previously published audited consolidated financial statements for the year ending on such date.

Statement of Operations Data:

	Year Ended December 31, 2005 (NIS in thousands, except share and per share data)
Revenues:	
Communications	246,579
Media	42,191
Total revenues	288,770
Operating expenses:	
Cost of revenues	154,781
Selling and marketing	71,935
General and administrative	33,156
Total operating expenses	259,872
Operating income	28,898
Financial expenses, net	(9,403)
Other income	237
Income before income taxes	19,732
Income tax expenses	1,451
Net income	18,281
Earnings per ordinary share - basic	
Net income per share	0.99
Weighted average number of shares used in the calculation	18,432
Earnings per ordinary share - diluted	
Net income per share	0.99
Weighted average number of shares used in the calculation	18,432

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. We do not use such rates in the preparation of our consolidated financial statements included elsewhere herein. See Note2 to the consolidated financial statements included elsewhere in this Form 20-F.

Period	Average	High	Low	At Period End

Year ended December 31, 2005	4.484	4.741	4.299	4.603
Year ended December 31, 2006	4.453	4.725	4.176	4.225
Year ended December 31, 2007	4.110	4.342	3.830	3.846
Year ended December 31, 2008	3.586	4.022	3.230	3.802
Year ended December 31, 2009	3.923	4.256	3.690	3.775

Period	High	Low
December 2009	3.815	3.772
January 2010	3.765	3.667
February 2010	3.796	3.704
March 2010	3.787	3.713
April 2010	3.749	3.682
May 2010	3.870	3.730

On June 28, 2010, the representative rate of exchange was NIS 3.888 = $1.00 as published by the Bank of Israel.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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 Related to the Business of Bezeq

Bezeq’s competition from other telecommunications providers, and potential changes in the competitive environment and communications technologies, could adversely affect its business and our results of operations.

Competition in domestic landline services in Israel is intensifying. Furthermore, we view the cellular telephony market as a market which, to a large extent, is an alternative to the fixed-line domestic telephony market. The companies that currently compete with Bezeq or that are likely to compete with it in the future enjoy much greater business flexibility than Bezeq, including an ability to cooperate with subsidiaries and associates and to market joint service bundles with them. The ability of Bezeq’s competitor HOT Telecom, or HOT, a partnership of the cable companies, to market service bundles (broadband Internet, telephony and cable television) with tariff flexibility, compared with the current restrictions on our ability to do so, harms Bezeq’s ability to compete.

In addition, the cellular market in Israel is highly saturated and characterized by strong competition, and is subject to technological and regulatory developments. Bezeq’s operations in the cellular market, through its subsidiary, Pelephone, face fierce competition from the other cellular operators, Partner Communications Company Ltd. (a company controlled by Scailex Corporation Ltd.), or Partner, Cellcom Israel Ltd., a subsidiary of the IDB group, or Cellcom, and MIRS Communications Ltd., or MIRS, which has increased the size of the market and subscribers, but has caused an erosion of prices. There is a trend to legislate and impose standards on cellular operations relating to the environment, increased competition, tariffs, product liability and the methods used for repairing products, which regulations could make it harder to construct cellular sites, impairing network quality, and increase the costs of services and marketing. Due to the intense competition in the cellular market, we may not be able to roll those costs in full onto consumers, which could erode our profits in the sector. Furthermore, regulatory intervention and the uncertainty it entails may have an adverse effect on our ability to plan our cellular business activity.

The competition in the cellular and land-line markets has increased as a result of the introduction of number portability and we expect it to further increase upon implementation of the Ministry of Communications’ policy to encourage the entry of mobile virtual network operators into the cellular market.

Additionally, in the field of television broadcasts, in which Bezeq operates through DBS, which is characterized by a very high penetration rate and very strong competition, Bezeq is required to constantly invest in recruiting and retaining customers; and dealing with high transfer rates of customers between DBS and HOT and abandonment by costumers who view broadcast via the Internet and digital terrestrial television. The offer of a bundle of services containing multi-channel television, Internet and telephony, which are not offered in this format by DBS, as well as HOT's high penetration rates for video on demand, or VOD, services also increase HOT's ability to compete against DBS. DBS's inability to offer VOD services in competition with HOT also harms DBS's ability to compete.

Telecommunications is a field characterized by frequent technological changes and a short economic life span for new technologies. These trends mean a constant lowering of entry barriers for new competitors, an increase in depreciation rates, and in certain cases, redundancy of technology and networks owned, which may cause Bezeq to incur impairment charges for investments which are still recorded on its statements of financial position.

Competition in the voice, cellular and Internet services markets in Israel is intensifying. The main characteristic of market competition in 2009 was the merging of communication groups and offering of comprehensive services and products. Four main groups operate in the communications market in Israel today: the Bezeq group, the IDB group, the Partner group and the HOT group. There are four competitors in the international long distance voice services market in Israel, Bezeq International, 013 NetVision Ltd. (a member of the IDB group), or 013 NetVision, 012 Smile Telecom Ltd., or 012 Smile Telecom, and Xfone Ltd., or Xfone. In the ISP market there are a number of competitors, including Bezeq International, 012 Smile Telecom, 013 NetVision and Partner, and two minor niche players, and Bezeq believes that HOT is preparing to enter this market. In the cellular services market in Israel there are four competing companies: Cellcom, Partner, Pelephone and MIRS. Pelephone faces fierce competition from such other cellular operators and such competition has resulted in an increase in the size of the market, the addition of new subscribers and an erosion of prices.

Bezeq operates in a highly regulated telecommunications market which limits its flexibility in managing its business and may materially and adversely affect our results of operations.

Bezeq operates in a highly regulated industry in Israel, which limits its flexibility in managing its business, mainly with respect to the land-line market. Bezeq is subject to government supervision and regulation relating to, among other things, licensing for activity, determining permitted areas of activity, determining tariffs, operation, competition, environment, payment of royalties, obligation to provide universal service, ability to hold its shares, relationships between Bezeq and its subsidiaries and prohibition to terminate or restrict its services (which may force Bezeq to provide services even when not economically feasible or against its interests). This supervision and regulation at times lead to the intervention of the State of Israel. Bezeq's business and operations could be adversely affected by decisions by regulators, in particular the Ministry of Communications as well as changes in laws, regulations or government policy affecting its business activities. Further risks and uncertainties result from the fact that changes in such laws, regulations or government policies may not be adopted or implemented in the manner that Bezeq expects and may be further amended, interpreted or enforced in an unexpected manner or in a manner adverse to Bezeq's business and results of operations

Bezeq may face difficulties in obtaining some of the building and environmental permits required for the establishment and operation of its network sites, which could have an adverse effect on the coverage, quality and capacity of its network.

Bezeq, mainly with respect to its cellular operations through Pelephone, is subject to the Israeli Non-Ionizing Radiation Law, 5766-2006, which regulates the emission of electromagnetic radiation from broadcast facilities. Bezeq is currently working to obtain permits to set up and operate its various broadcasting installations; however, the policies maintained by the various relevant entities and amendments to applicable statutes and standards could adversely impact the infrastructure of such installations and the regularity of the services using the infrastructure. As a result, Bezeq's revenues from these services could be adversely affected.

In addition, the establishment and operation of cellular antennas are subject to building permits from various planning and building committees, a process that involves a number of approvals from Israeli state entities and regulatory bodies.

The foregoing may impair the quality and capacity of Bezeq's existing network and the deployment of the new network.

Actual and alleged health risks related to cellular network sites and mobile telecommunication devices could have a material adverse effect on our business, operations and financial condition.

Cellular network sites, handsets and accessories are known to be sources of non-ionizing radiation emissions. Bezeq takes steps to ensure that the levels of radiation emitted by these transmission facilities, equipment and devices do not exceed the levels of radiation permitted in the directives of the Israeli Ministry of Environment Protection (levels adopted in accordance with international standards). However, health risks may be found to exist and transmission sites or devices and equipment may emit more radiation than that allowed in radiation standards, causing a risk to health, which may have an adverse effect on our business and could result in a reduction in the use of cellular services, difficulty in renting sites, claims for physical and property damages in substantial amounts and attempts to exercise the deeds of indemnity that Bezeq deposited with the planning authorities pursuant to the Planning and Building Law. Bezeq's third-party liability policy does not currently cover electromagnetic radiation.

Bezeq's tariffs for its services are subject to government control, which harms its ability to compete and results in an erosion of its tariffs, which adversely affects its business.

Bezeq's tariffs for its services are subject to government control. Some of these tariffs are stipulated in regulations and regulations also stipulate a formula for updating tariffs. Bezeq is restricted in its ability to give discounts on its principal services and to offer differential tariffs. Further, alternative service packages, which should provide an immediate alternative to the regular tariffs, are currently subject to an extended approval process, which often renders the alternative service package option moot. The foregoing factors harm Bezeq's ability to compete and results in an erosion of its tariffs, which adversely impacts its business.

On February 14, 2010, the Ministries of Communications and Finance announced the appointment of a committee that will consider a new tariff arrangement for Bezeq, including determining new tariffs relating to the provision of services in the wholesale market for fixed-line communications (including resale and the provision of access to infrastructure) and call completion tariffs in the fixed-line networks. In accordance with the committee's appointment terms, any arrangement for regulated tariffs must also include a mechanism for updating the regulated tariffs. On May 4, 2010, Pelephone received notice from the Minister of Communications that he is considering reducing mobile fees for call completion and text messages completion commencing August 1, 2010, with a further gradual reduction in such rates. On June 24, 2010 Pelephone filed its response to this proposal. The foregoing measures may result in erosion in revenue, which would adversely affect Bezeq's business.

Bezeq is subject to restrictions on intercompany relations with affiliated companies, which harms its ability to compete and adversely affects its business.

Bezeq's general license for fixed-line communication services received from the Minister of Communications obligates it to ensure that its relationships with its principal subsidiaries do not result in favoring them over their competitors. Separation is required between the managements of Bezeq and such other companies, as is separation between the financial and marketing systems, assets and employees, which causes high administration overheads. Bezeq is also subject to limitations with respect to the offering of joint service bundles with those companies, which adversely impacts its business, particularly in light of the recent entry into the market of communications companies competing directly with Bezeq in most of its areas of operation based on the provision of bundled services to the customer.

Bezeq's systems and operations are vulnerable to damage or interruption, which could expose it to material risk of loss or litigation.

Bezeq's systems and operations are vulnerable to damage or interruption due to human error, natural disasters, power loss, communications failures, break-ins, sabotage, computer viruses, intentional acts of Internet vandalism and similar events. Any of these events could expose Bezeq to a material risk of loss or litigation. While Bezeq currently has partially redundant systems, its does not have full redundancy, or alternative providers of hosting services.

Bezeq is currently deploying its new generation network, which to a large extent will replace its traditional networks. The set-up of a new network based on advanced technology involves operational and business risks, such as damaging the continuity and quality of the services provided to Bezeq's customers, which could adversely impact its business.

Bezeq's operations in the cellular market are exposed to losses in the event of malfunctions in the terminal equipment that it sells, including various property risks and liabilities. Bezeq's cellular information systems are networked throughout the country through designated communications lines and via the Internet, and its cellular business is highly dependent upon these systems. Wide-scale malicious harm or malfunction might adversely affect Bezeq's cellular business and financial results. Also, Bezeq's cellular communications network is deployed around the country through network core sites and antenna sites and it cellular business is totally dependent upon these systems. Damage caused by natural or other disasters, war or damage to the switching farm and/or servers used by Bezeq for its core cellular activities could have an adverse effect on its business and results of operations. Bezeq's cellular business uses two frequency ranges: 850 MHz and 2100 MHz. These frequencies are exposed to interruptions and could impair service quality of the networks that it operates.

Bezeq's operations and business may be adversely impacted by strikes or work stoppages and other labor related disputes.

As part of its preparations for the intensifying competition in the market sector and for greater efficiency of its operations, Bezeq is continuing to formulate plans for organizational changes and a further reduction in its headcount. The implementation of these plans involves coordination with Bezeq's employees and substantial costs, including the costs of early retirement in amounts exceeding existing agreements. The implementation of these plans has caused labor unrest, which could harm Bezeq's regular business.

In connection with the sale by Ap.Sb.Ar. Holdings Ltd. of the controlling interest in Bezeq to B Communications , the employees of Bezeq demanded additional compensation a new collective bargaining agreement. On March 25, 2010, Bezeq received a strike notice from the labor union that represents Bezeq's employees. On May 2, 2010, the labor union announced that it will begin to initiate limited work stoppages. If Bezeq's employees were to engage in a strike, work stoppage, or other slowdown, Bezeq could experience a significant disruption of its operations or higher ongoing labor costs, either of which could have a material adverse effect on its results of operations and financial condition. Additionally, a new collective bargaining agreement could significantly increase Bezeq's costs for wages and other benefits, which could have a material adverse impact on its results of operations, financial condition, and liquidity.

Bezeq and its subsidiaries are parties to legal proceedings, which could result in them being ordered to pay significant sums.

Bezeq and its subsidiaries are parties legal proceedings, including class actions, which could result in them being ordered to pay significant sums, the amount of which cannot be estimated. Class action claims can reach large amounts, as virtually all residents of Israel are consumers of Bezeq's services and a claim that relates to a minor loss for a single consumer can become a material claim for Bezeq if it is certified as a class action applicable to all consumers or a significant portion of them. In addition, since Bezeq provides communications infrastructure as well as billing services to other licensees, parties suing those licensees in other class actions are also likely to try to involve Bezeq as a party to such proceedings.

The market in which Bezeq operates is characterized by material capital investments in infrastructure and subscriber equipment and changing technology, which imposes a heavy financial burden on Bezeq.

The market in which Bezeq operates is characterized by material capital investments in infrastructure and subscriber equipment and changing technology. The frequent technological changes in infrastructure and terminal equipment and the fierce competition in various market segments impose a heavy financial burden on the companies operating in the market, requiring them to update their infrastructure technology from time to time or to introduce new devices into the market at heavy cost. The development of new technologies can render existing technologies obsolete, resulting in the need for large monetary investments in order to retain a competitive position. Bezeq's future success will depend on its ability to develop and introduce, on a timely and cost-effective basis, new infrastructure and subscriber equipment that keep pace with technological developments. If Bezeq is unable to respond promptly and effectively to changing technology, it will be unable to compete effectively in the future and its business could be adversely affected.

Bezeq's results of operations are subject to market risks such as currency fluctuations, inflation in Israel and the financial condition of the market in Israel and worldwide.

Bezeq's results of operations are subject to market risks such as currency fluctuations, inflation in Israel and the financial condition of the market in Israel and worldwide. Bezeq measures exposure to changes in exchange rates and inflation by the surplus or deficit of assets against liabilities, based on the type of linkage. In addition, Bezeq's exposure to inflation changes in Israel is high. Bezeq's also has exposure to market risk for changes in interest rates relating primarily to its borrowings.

Bezeq collects payments from part of its costumers in foreign currency, primarily U.S. dollars. In addition, Bezeq consumes services from suppliers outside Israel and pays for these services in foreign currency, primarily U.S. dollars. Changes in the exchange rates of the currencies in which Bezeq operates, primarily the New Israeli Shekel against the U.S. dollar, could have an adverse effect on Bezeq's cash flow and profitability.

Market and financial stability and the strength of the economy in Israel and worldwide have recently been subject to great volatility and led to a global economic slowdown. Although global economic conditions have begun to stabilize or improve, if the local market continues to be weak or weakens further, Bezeq's business results could be harmed and its revenues may decline.

Risks Related to B Communications

B Communications has a substantial amount of existing debt, which could restrict its financing and operating flexibility and have other adverse consequences.

To facilitate the funding of the acquisition of the controlling interest in Bezeq, B Communications entered into two financing agreements under which it received loans in a total principal amount of NIS 5.1 billion (approximately $1.35 billion). The financing agreements include certain financial covenants, including, among other things, the requirement that Bezeq maintain certain minimum shareholders equity and minimum ratio of shareholders' equity. In addition, our wholly-owned subsidiary that directly holds the Bezeq interest must maintain a minimum ratio of debt to EBITDA and a debt service coverage ratio. The Bezeq shares acquired and all of such subsidiary's other rights and assets (except additional shares of Bezeq that it might acquire in the future) have been pledged to the lenders as security under the loan agreement. In addition, B Communications has pledged to the lenders the entire equity its holds in the subsidiary it established to acquire the Bezeq shares and the debt owed by such subsidiary. B Communications' ability to repay its debt may be affected by Bezeq's distribution policy and the amount of dividends it receives from Bezeq. If B Communications is unable to meet its debt obligations or comply with its debt covenants, it could be forced to renegotiate or refinance its indebtedness, seek additional equity capital or sell assets. B Communications may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding B Communications' debt instruments and indebtedness, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources."

Risks Related to GoldMind

GoldMind faces significant competition from companies that provide eCommerce services, content, search services and advertising to Internet users and Internet service providers.

GoldMind faces significant competition in every aspect of its business, principally from Google, Walla Communications Ltd. or Walla!, an Israeli company whose shares are listed on the TASE and which is controlled by Bezeq, Ynet, Tapuz and Nana10, which provide a variety of Internet content, eCommerce services and relevant advertising services. Some of GoldMind's competitors have longer operating histories and more established relationships with customers as well as more resources than it does. GoldMind's competitors can use their experience and resources in a variety of ways, including acquisitions, research and development and by competing more aggressively for advertisers and online publishers. Some of GoldMind's competitors may also have a greater ability to attract and retain users than it does because they operate larger Internet properties with a broader range of content, products and services.

GoldMind may be exposed to substantial liabilities arising out of its Internet activities.

GoldMind hosts a wide variety of services that enable individuals and businesses to exchange information, generate content, advertise products and services, conduct business and engage in various online activities on an international basis. The law relating to the liability of providers of these online services for the activities of their users is currently unsettled both within Israel and internationally. Claims may be brought against GoldMind for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud or other theories based on the nature and content of information that it provides links to, that may be posted online or generated by its users, or with respect to auctioned materials. GoldMind is susceptible to claims arising from its websites that are geared to other cultures and are in other languages that it cannot easily review or may have difficulty in fully understanding. GoldMind's defense of any such actions could be costly and involve significant time and attention of its management and other resources. GoldMind generally does not exercise editorial control over the content appearing on websites that its users may be directed to from GoldMind's websites and may be subject to claims that it has not exercised sufficient control over such content. In the event that GoldMind is found to be responsible for any such liability or required to pay for any damages resulting from any such responsibility, its business may be adversely affected.

GoldMind also enters into arrangements to offer third-party products, services, or content on its websites and portals. GoldMind may be subject to claims concerning these products, services or content by virtue of its involvement in marketing, branding, broadcasting or providing access to them, even if it does not host, operate, provide or provide access to these products, services or content. While its agreements with these parties often provide that GoldMind will be indemnified against such liabilities, such indemnification may not be adequate.

It is also possible that if any information provided directly by GoldMind contains errors or is otherwise negligently provided to users, third parties could make claims against it. For example, GoldMind offers web-based email services which expose it to potential risks, such as liabilities or claims resulting from unsolicited email, lost or misdirected messages, illegal or fraudulent use of email, or interruptions or delays in email service. Investigating and defending any of these types of claims is expensive, even to the extent that the claims do not ultimately result in liability.

GoldMind generates the majority of its revenue from eCommerce. Changes in general economic conditions may have an adverse effect on its eCommerce operational results.

During 2008, we experienced a significant reduction in our on-line advertisement revenues, as we terminated some of our substantial media activities, including our prior MSN activity in July 2008. Since the termination of our MSN activity, GoldMind has generated the majority of its revenue from eCommerce. For the years ended December 31, 2008 and 2009, GoldMind generated approximately 55% and 77% of its total revenue, respectively, from eCommerce. Unfavorable changes in general economic conditions, such as a recession or prolonged economic slowdown, may reduce the demand for our products and otherwise adversely affect our sales. For example, economic forces, including general economic conditions, demographic trends, consumer confidence in the economy, changes in disposable consumer income and reductions in discretionary spending, may cause consumers to defer purchases of products offered on our eCommerce sites, which could adversely affect our revenue, gross margins and our overall financial condition and operating results.

GoldMind generates a substantial part of its revenue from online advertising and a reduction in spending by or loss of current or potential advertisers would cause GoldMind's revenue and operating results to decline.

For the years ended December 31, 2008 and 2009, GoldMind generated approximately 45% and 23% of its total revenue, respectively, from online advertising. GoldMind's ability to continue to retain and grow its advertising revenue depends upon, among other things, its ability to maintain current users and to continue to attract new users to its websites, to offer advertisers a diverse range of vertically and demographically targeted audiences and to broaden its relationships with advertising agencies and small and medium-size advertisers.

In many cases, advertisers can terminate their contracts with GoldMind at any time. In addition, advertisers may make smaller or shorter-term purchases, and market prices for online advertising may decrease due to competition or other factors. Advertisers will not continue to do business with GoldMind if their advertisements on GoldMind's websites do not generate sales leads, and ultimately customers, or if GoldMind does not deliver their advertisements in an appropriate and effective manner. If GoldMind is unable to remain competitive and provide value to its advertisers, it may lose its existing advertisers and fail to attract new advertisers, which would cause its revenue to decrease and have a negative effect on our business.

Changes in regulations or user concerns regarding privacy and protection of user data and consumer protection could adversely affect GoldMind's business.

Local and international laws and regulations may govern the collection, use, sharing and security of data that GoldMind receives from its users and partners. In addition, GoldMind posts on its websites its own privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by GoldMind to comply with its posted privacy policies or with any data-related consent orders, local, state or international privacy-related laws and regulations could result in proceedings or actions against it by governmental entities or others, which could potentially have an adverse effect on its business.

Further, failure or perceived failure to comply with GoldMind's policies or applicable requirements related to the collection, use, sharing or security of personal information or other privacy-related matters could result in a loss of user confidence in GoldMind and ultimately in a loss of users, partners or advertisers, which could adversely affect its business.

In addition, consumer protection in the area of eCommerce and advertising is heavily regulated in Israel and the consumer protection laws are constantly evolving. If we do not comply with consumer protection laws, we could be subject to sanctions and litigation, which could adversely affect GoldMind's business.

Risks Related to Internet Gold

We have a substantial amount of existing debt, which could restrict our financing and operating flexibility and have other adverse consequences.

As of December 31, 2009, we had borrowings of NIS 463 million ($122.6 million) under our lines of credit with five banking institutions in Israel. The lines of credit provide for interest at annual rates ranging from 1.9 % to 2.34 % and an average rate of 2.1%. In connection with such credit lines, we agreed not to pledge any of our assets to any person. In addition, pursuant to the terms of such credit lines, we are required to maintain our ownership position in our subsidiary B Communications above 51%. These credit lines do not have a specified maturity date and they may be called by each bank at any time. If we are unable to meet our debt obligations or comply with our debt covenants, we could be forced to renegotiate or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding our indebtedness, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources."

If we, B Communications or any other member of the Eurocom group subject to the control permit for the acquisition of the controlling interest in Bezeq fails to comply with such permit or other regulatory provisions relating to the control of Bezeq, the control permit could be revoked and our rights with respect to our Bezeq interest would be adversely impacted, which would have a material adverse effect on our business and financial position.

As part of B Communications' acquisition of the controlling interest in Bezeq, we, B Communications, its indirect fully owned-subsidiary which holds the Bezeq interest, or SP2, its wholly-owned subsidiary that directly owns such subsidiary and other members of the Eurocom group were granted a permit to control Bezeq, pursuant to the Communications Law and Communications Order. The control permit includes several conditions, including, among others, the requirement that SP2 be controlled exclusively by the other parties to the control permit and that the parties to the control permit hold not less than 30% of any type of means of control of Bezeq and SP2. In addition, the control permit requires that a certain percentage of SP2 be held at all times by an "Israeli Party," as defined in the Communications Order. The control permit also includes certain notice requirements regarding changes in the composition of the board of directors and certain holdings in us and Internet Gold. If we, B Communications or any other member of the Eurocom group subject to the control permit fails to comply with the terms of the control permit or other regulatory provisions relating to the control of Bezeq, such permit could be revoked and our rights with respect to our Bezeq interest would be adversely impacted, which would have a material adverse effect on our business and financial position.

If we and B Communications do not maintain control of Bezeq, we and B Communications may each be deemed to be an "investment company" under the Investment Company Act of 1940, which could have a material adverse effect on our business.

Section 3(a)(1)(A) of the Investment Company Act of 1940, or the Investment Company Act, defines an investment company as any issuer that is, holds itself out as being, or proposes to be, primarily engaged in the business of investing, reinvesting or trading in securities and Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" (within the meaning of the Investment Company Act) having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. However, an issuer will be deemed not to be an investment company if no more than 45% of the value of such issuer's total assets (exclusive of government securities and cash items) consists of, and no more than 45% of such issuer's net income after taxes (for the last four fiscal quarters combined) is derived from, securities other than, among other things, securities issued by companies which are controlled primarily by such issuer. Primary control is presumed if the issuer owns over 25% of the controlled company's voting securities and the issuer has control greater than that of any other person. Accordingly, so long as we and B Communications maintain control of Bezeq, we and B Communications will not be deemed an investment company.

If we and B Communications were to no longer maintain the control of Bezeq, we and B Communications could, among other things, be required either (i) to change substantially the manner in which we conduct our operations to avoid being subject to the Investment Company Act or (ii) to register as an investment company. An investment company that is organized under the laws of a foreign country may not register as an investment company, or publicly offer its securities through interstate commerce in the United States, unless the company applies to the Securities and Exchange Commission for an order permitting the company to register under the Investment Company Act, and to make a public offering in the United States. The Securities and Exchange Commission may issue an order granting the application if it finds that, by reason of special circumstances or arrangements, it is both legally and practically feasible effectively to enforce the provisions of the Investment Company Act against the issuer, and further finds that granting the application is otherwise consistent with the public interest and the protection of investors.

If we and B Communications were required to register as an investment company under the Investment Company Act, we and B Communications would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with certain affiliates, reporting, record keeping, voting, proxy and disclosure requirements, and meeting these requirements would be costly, if at all possible.

We may be unable to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.

Section 404 of the Sarbanes-Oxley Act requires any company subject to the reporting requirements of the U.S. securities laws to do a comprehensive evaluation of its and its combined subsidiaries' internal control over financial reporting. To comply with this statute, we are required to document and test our internal control procedures, and our management is required to assess and issue a report concerning our internal control over financial reporting. The rules governing the standards that must be met for management to assess our internal control over financial reporting are relatively new and complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules.

Beginning in the 2010 second quarter, we began consolidating Bezeq's financials results into our financial statements following B Communications' acquisition of the controlling interest in Bezeq. Effective for the year ended December

31, 2011, our management report on internal control over financial reporting must include our assessment with respect to Bezeq's internal control over financial reporting. Prior to the acquisition by B Communications of the controlling interest, Bezeq was not subject to Section 404 of the Sarbanes-Oxley Act. We may in the future identify a material weakness in Bezeq's internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Risks Related to Our Relationship with Eurocom Communications Ltd.

Because Eurocom Communications Ltd. controls the majority of the voting power of our ordinary shares, investors will not be able to affect the outcome of all shareholder votes.

Eurocom Communications Ltd, or Eurocom Communications, owned 70.79% of our outstanding shares as of June 30, 2010. Mr. Shaul Elovitch, the chairman of our board of directors and the chairman of the board of directors of our parent, Eurocom Communications, and the controlling shareholder of Eurocom Communications, is able to exercise control over our operations and business strategy and control the outcome of all matters involving shareholder approval.

For as long as Eurocom Communications and Mr. Elovitch indirectly have a controlling interest in our shares, they will have the ability to exercise a controlling influence over our business and affairs, including any determinations with respect to potential mergers or other business combinations involving us, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional ordinary shares or other equity securities, our repurchase or redemption of ordinary shares and our payment of dividends. Similarly, as long as Eurocom Communications and Mr. Elovitch have a controlling interest in our company, they will have the power to determine or significantly influence the outcome of matters submitted to a vote of our shareholders, including the power to elect all of the members of our board of directors (except outside directors), and to prevent an acquisition or any other change in control of us. Because the interests of Mr. Elovitch may differ from the interests of our other shareholders, actions taken by him with respect to us may not be favorable to our other shareholders. See Item 10B. “Additional Information - Memorandum and Articles of Association” and Item 7B. “Major Shareholders and Related Party Transactions - Related Party Transactions.”

Conflicts of interest may arise between Eurocom Communications, other companies within the Eurocom group and us that could be resolved in a manner unfavorable to us and result in reduced revenues and income.

Conflicts of interest may arise between Eurocom Communications and us in a number of areas relating to our past and ongoing relationships. Areas in which conflicts of interest between Eurocom Communications and us could arise include, but are not limited to, the following:

- Cross officerships, directorships and share ownership. The ownership interests of Eurocom Communications in our ordinary shares could create, or appear to create, conflicts of interest when directors and executive officers are faced with decisions that could have different implications for the two companies. For example, these decisions could relate to the nature, quality and cost of services rendered to us by Eurocom Communications, disagreements over the desirability of a potential acquisition opportunity or employee retention or recruiting. In addition, Eurocom Communications may take an opportunity for itself or preclude us from taking advantage of a corporate opportunity; and

- Intercompany transactions. From time to time, Eurocom Communications or other companies within the Eurocom group may enter into transactions with us or our subsidiaries or other affiliates. Although the terms of any such transactions will be established based upon negotiations between employees of such companies and us and, when appropriate, subject to the approval of our independent directors or a committee of disinterested directors and in some instances a vote of shareholders, the terms of any such transactions may not be as favorable to us or our subsidiaries or affiliates as may otherwise be obtained in arm’s-length negotiations with unaffiliated third parties.

Risks Related to Our Ordinary Shares

Our share price has been volatile and may decline in the future.

The market price of our ordinary shares has been subject to significant price movements and could be subject to wide fluctuations in the future in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results, which beginning in the 2010 second quarter include the operations of Bezeq;
- global economic conditions;
- price movements in the market price of Bezeq's ordinary shares
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- regulatory changes that impact pricing of services and competition in Bezeq's markets;
- changes in market valuations of other communications companies;
- announcements of technological innovations or new services by Bezeq or its competitors;
- announcements by Bezeq or its competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of Bezeq's intellectual property rights;
- announcements by third parties of significant claims or proceedings against us or Bezeq;
- additions or departures of key personnel;
- future sales of our ordinary shares; and
- stock market price and volume fluctuations.

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

Future sales or distributions of our ordinary shares by Eurocom Communications could depress the market price for our ordinary shares.

Eurocom Communications may sell a portion of our ordinary shares that it owns, including pursuant to demand registration rights described elsewhere in this annual report, or distribute those shares to its shareholders. Sales or distributions by Eurocom Communications of substantial amounts of our ordinary shares in the public market or to its shareholders could adversely affect prevailing market prices for our ordinary shares. Eurocom Communications is not subject to any contractual obligation that would prohibit it from selling, spinning off, splitting off or otherwise disposing of any of our ordinary shares so long as it maintains a controlling interest in us. We cannot assure you that Eurocom Communications will maintain its ownership of our ordinary shares.

We have never paid cash dividends to our shareholders and have not adopted a dividend distribution policy.

We have never declared or paid cash dividends on our ordinary shares and have not adopted a dividend distribution policy. B Communications' indirect subsidiary SP2, which directly holds Bezeq's shares and our principal source of revenues and income, is subject to limitations on the payment of dividends under the terms of the financing agreements entered into in connection with its acquisition of the controlling interest in Bezeq. You should not rely on an investment in our company if you require dividend income from your investments.

We may be classified as a passive foreign investment company, which will subject our U.S. investors to adverse tax rules.

There is a risk that we may be treated as a "passive foreign investment company." Our treatment as a passive foreign investment company could result in a reduction in the after-tax return to the U.S. holders of our ordinary shares and may cause a reduction in the value of such shares. A foreign corporation will be treated as a passive foreign investment company for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income," or (2) at least 50% of the average value of the corporation's gross assets produce, or are held for the production of, such types of "passive income." For purposes of these tests, "passive income" includes dividends, interest and gains from the sale or exchange of investment property; and cash is considered to be an asset that produces passive income. If we are classified as a passive foreign investment company for U.S. federal income tax purposes, highly complex rules would apply to U.S. shareholders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. United States residents should carefully read "Item 10E. Additional Information - Taxation, United States Federal Income Tax Consequences" for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

Risks Related to the Operations of Bezeq and our Company in Israel

Bezeq and GoldMind conducts their operations in Israel and their businesses focuses on the Israeli audience, therefore our results of operations may be adversely affected by political, economic and military instability in Israel.

We and Bezeq are incorporated and based in the State of Israel and we and Bezeq derive substantially all of our revenues from markets within the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence us. 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 could have a material adverse effect on our business, financial condition and results of operations.

Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business. Ongoing violence between Israel and the Palestinians as well as tension between Israel and the neighboring Syria and Lebanon may have a material adverse effect on Bezeq's business, financial condition and results of operations.

Many of Bezeq's and 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. Bezeq's operations could be disrupted by the absence for a significant period of one or more of its executive officers or key employees or a significant number of other employees due to military service. Any disruption in Bezeq's operations could adversely affect its business.

Bezeq may be restricted in the conduct of its operations during periods of national emergency, which could negatively affect its business operations.

During periods of national emergency, the Minister of Communications and other governmental authorities may issue various instructions regarding the use of Bezeq's network, including the use of the network by the Israeli security forces. In addition, the Israeli Equipment Registration and IDF Mobilization Law, 1987 permits the registration, taking and use of engineering equipment and facilities by Israel's Defense Forces. These actions could adversely affect Bezeq's business operations.

Our operating results may be adversely affected by significant fluctuations of the NIS against foreign currencies and in the consumer price index in Israel.

We report our financial results in NIS. Bezeq receives payments in NIS for most of its sales. As a result, fluctuations in rates of exchange between NIS and the U.S. dollar may affect our operating results and financial condition. In addition, when the Israeli inflation rate exceeds the rate of the NIS depreciation against foreign currencies, some of our NIS expenses increase to the extent of the difference between the rates. A significant disparity of this kind may have a material adverse effect on our operating results.

Furthermore, a substantial depreciation of the NIS in relation to the U.S. dollar could substantially increase the cost of our services to Israelis, who pay us in NIS, and may result in subscriber cancellations and a reduction in Internet use and eCommerce in Israel.

From time to time, we engage in currency hedging transactions to reduce the impact on our cash flows and results of operations of currency fluctuations. We recognize freestanding derivative financial instruments as either assets or liabilities in our statements of financial position and we measure those instruments at fair value. However, accounting for changes in the fair value of a derivative instrument, such as a currency hedging instrument, depends on the intended use of the derivative instrument and the resulting designation. For derivative instruments that are not designated as cash flow hedges, changes in fair value are recognized in our income statement without any reference to the change in value of the related budgeted expenditures. These differences could result in fluctuations in our reported net income on a quarterly basis.

Further, as the principal amount of, and interest that we pay on, our debentures are linked to the Israeli consumer price index, any increase in the Israeli Consumer Price Index will increase our financial expenses and could adversely affect our results of operations.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Listing Rules. As a foreign private issuer listed on the NASDAQ Global Market, we may follow home country practice with regard to, among other things, the composition of the board of directors, compensation of officers, director nomination process and quorum at shareholders' meetings. In addition, we may follow home country practice instead of the NASDAQ requirement to obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

The rights and responsibilities of our shareholders will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

Because we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith 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 shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who, under our articles of association, 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.

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

Following the acquisition by B Communications of the controlling interest in Bezeq, we and our shareholders are required to comply with the Israeli Communications Law (Telecommunications and Broadcasting), 1982, or the Communications Law, the Communications Order (Determination Of Essential Service Provided By "Bezeq" The Israel Telecommunication Corp., Limited), 5757-1997, or the Communications Order, and regulations promulgated by the Ministry of Communications. Pursuant to the Communications Order, we were required to obtain the prior written consent of the Prime Minister of Israel and the Israeli Minister of Communications in order to acquire the controlling interest in Bezeq. Under the Communications Order, no person may acquire, directly or indirectly, the ability to exercise "significant influence" over Bezeq or 5% or more of any particular class of means of control in Bezeq, nor may any person, together with any other person, appoint the general manager of Bezeq or cause the election or appointment of any director of Bezeq, without the prior written consent of the Prime Minister of Israel and the Israeli Minister of Communications. Subject to certain exceptions, prior written approval of such Ministers is also required to increase the holdings or other rights in excess of those determined in the initial approval, including by means of an agreement (including a voting agreement). Furthermore, under the Communications Order, no person may transfer control, "significant influence" or means of control in Bezeq to another, if, as a result of the transfer, the holdings of the transferee would require approval pursuant to the Communications Law or Communications Order and the transferee is not in possession of the requisite approval. For the foregoing purposes, "significant influence" means the ability to significantly influence the activity of a corporation, whether alone or together with or through others, directly or indirectly, as a result of holding means of control in that corporation or in another corporation, including ability derived from the corporation's articles of association, a written, oral or other kind of agreement, or from any other source, excluding solely as a result of the performance of an office holder's duties in the corporation. In this context, holding 25% of our means of control is presumed to confer significant influence. "Means of control" means the right to vote at a general meeting of the company, to appoint a director or general manager of the company, to participate in the profits of the company or a share of the remaining assets of the company after payment of its debts upon liquidation.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. In addition, our articles of association contain provisions that may make it more difficult to acquire our company, such as provisions establishing a classified board. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. For additional discussion about some anti-takeover effects of Israeli law, see "Item 6C. Directors, Senior Management and Employees –Board Practices – Approval of Related Party Transactions Under Israeli Law" and Item 10E. "Taxation -Israeli Tax Considerations." These provisions of Israeli law may delay, prevent or make difficult an acquisition of our company, which could prevent a change of control and therefore depress the price of our shares.

Investors and our shareholders generally may have difficulties enforcing a U.S. judgment against us, our executive officers and directors or asserting U.S. securities laws claims in Israel.

We are incorporated in Israel and all of our executive officers and most of our directors reside outside the United States. Service of process upon them may be difficult to effect within the United States. Furthermore, all of our assets and most of the assets of our executive officers and directors are located outside the United States. Therefore, a judgment obtained against us or any of them in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to assert U.S. securities law claims in original actions instituted in Israel.

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 49277, Israel, and our telephone number is +972-72-2003-848. Our address on the Internet is www.igld.com and B Communications' maintains a website at b.communications.co.il. The information on our websites is not incorporated by reference into this annual report on Form 20-F.

We are a leading communications group in Israel. Our company's subsidiaries are B Communications Ltd. and GoldMind Ltd. Our principal subsidiary, B Communications, is the controlling shareholder of Bezeq (TASE:BZEQ), Israel's largest telecommunications provider. GoldMind is an Internet media company in Israel, which operates websites in Israel.

We began providing Internet access services in 1996, and began offering broadband services in 2001 and traditional voice services in 2004. As part of our internal restructuring in 2006, we transferred our broadband and traditional voice services businesses, which we refer to in this annual report as the legacy Communications Business, to B Communications (formerly named 012 Smile.Communications), and our media operations to GoldMind (formerly named 012 Smile.Media).

B. Communications

Since B Communications' initial public offering in October 2007, its ordinary shares have been listed on the NASDAQ Global Market (symbol:BCOM) and the TASE. We currently own 76.62% of the ordinary shares of B Communications.

Legacy Communications Business

Prior to January 2010, our principal subsidiary, B Communications (then named 012 Smile.Communications Ltd.), was a communication services provider in Israel that provided a wide range of broadband and traditional voice services.

On December 31, 2006, B Communications acquired one of our then principal competitors, 012 Golden Lines Ltd., or 012 Golden Lines.

On October 25, 2009, B Communications entered into a share purchase agreement to acquire the controlling interest in Bezeq, Israel's largest telecommunications provider, from Ap.Sb.Ar. Holdings Ltd.

As part of its acquisition of the controlling interest in Bezeq, on November 16, 2009, B Communications entered into an agreement to sell its legacy Communications Business (excluding certain retained indebtedness and liabilities) to a wholly-owned subsidiary of Ampal-American Israel Corporation (NASDAQ: AMPL), or Ampal, for NIS 1.2 billion (approximately $318 million). The sale of B Communications' legacy Communications Business to Ampal was completed on January 31, 2010, effective as of January 1, 2010. In connection with the sale of our legacy Communications Business, substantially all of the executive officers and employees of B Communications as of the closing of the transaction were hired by Ampal.

Acquisition of the Controlling Interest in Bezeq

On April 14, 2010, B Communications completed the acquisition of 30.44% of Bezeq's outstanding shares from Ap.Sb.Ar. Holdings Ltd. for an aggregate cash purchase price of approximately NIS 6.5 billion (approximately $1.72 billion) and became the controlling shareholder of Bezeq. The Bezeq interest was directly acquired by an indirect wholly-owned subsidiary. The transaction was completed after all conditions in the agreement were met, including receipt of the approval of the Prime Minister of Israel and the Israeli Minister of Communications (including the grant of control permits) and the Israeli Antitrust Commissioner. In accordance with the terms of the transaction, effective as of the closing of the acquisition, B Communications designated seven directors to replace the Apax-Saban-Arkin Group's representatives on Bezeq's Board of Directors, which numbers 13 directors. We began consolidating Bezeq's financial results into our financial statements effective as of the closing of the acquisition and will begin to report the consolidated results in our 2010 second quarter earnings release.

Bezeq, which was established as a government company in 1980 became a public company in 1990 and its shares are traded on the TASE.

Bezeq is the principal provider of communications services in Israel. Bezeq implements and provides a broad range of telecommunications operations and services, including domestic fixed-line, cellular, Internet services, international communication services, multi-channel television, satellite broadcasts, customer call centers, maintenance and development of communications infrastructures, provision of communications services to other communications providers, television and radio broadcasts, and supply and maintenance of equipment on customer premises (network end point services).

Bezeq has the following four principal areas of operation, which are reported as business segments in its consolidated financial statements:

- Bezeq – domestic fixed-line communications. This segment primarily includes Bezeq's operation as a domestic operator, including fixed-line telephony services, Internet services, transmission services and data communications.

- Pelephone – cellular telephone. Cellular mobile telephone services (cellular communications), marketing of end-user equipment, installation, operation and maintenance of cellular communications equipment and systems.

- Bezeq International– Internet, international communications and network end point, or NEP, services. Internet service provider, or ISP, services, international communications services and NEP services. Bezeq International owns 44.99% of Walla! which provides portal services and Internet media services. Bezeq owns an additional 9,902,467 shares of Walla! that are being held in a blind trust and Bezeq has no voting rights with respect to such shares.

- YES - multi-channel television. Multi-channel digital television broadcasts to subscribers over satellite and provision of value-added services to subscribers.

Permit to Control Bezeq Granted to Members of the Eurocom Group

As part of B Communications' acquisition of the controlling interest in Bezeq, we, B Communications, our indirect fully owned-subsidiary which holds the Bezeq interest, or SP2, our wholly-owned subsidiary that directly owns such subsidiary and other members of the Eurocom group applied for authorization to control Bezeq, pursuant to the Communications Law and Communications Order. On April 13, 2010, the control permit was granted subject to the condition that SP2 is controlled exclusively by the other parties to the control permit, referred to as the Companies' Control Permit. Concurrently, a separate control permit was also granted to Messrs. Shaul Elovitch and Yossef Elovitch, our controlling shareholders, referred to as the Individuals' Control Permit.

According to the Companies' Control Permit, the parties must hold not less than 30% of any type of means of control of Bezeq and SP2. Our subsidiary which owns the Bezeq shares is deemed to hold the Bezeq shares directly notwithstanding that the Bezeq interest is recorded in the name of a trust company wholly-owned by Bank Hapoalim, which was granted a lien over the Bezeq shares held by SP2 as a security for the repayment of the NIS 4.6 billion (approximately $1.24 billion) loan provided by Bank Hapoalim and other banking and financial institutions, referred to as the Lending Parties, for the funding of acquisition of the Bezeq interest.

In accordance with the Companies' Control Permit, our subsidiary which holds the Bezeq shares is required to notify the Prime Minister of Israel and Israeli Minister of Communications of any changes in the composition of its board of directors every six months and if the change represents half or more of the members of the board of directors, within

30 days of the change. The parties to the Companies' Control Permit are also required to notify such Ministers of any "Exceptional Holdings" immediately upon becoming aware of such event. Such parties are also required to notify such Ministers in the event a shareholder becomes a "Principal Shareholder" and regarding any change in the holdings of a Principal Shareholder within 48 hours of becoming aware of such change. The terms "Exceptional Holdings" and "Principal Shareholder" are defined in the Communications Order and in our Articles of Association and are described below in Item 10B "Additional Information - Memorandum and Articles of Association - Rights Attached to Shares - Exceptional Holdings; Principal Shareholders."

The parties to the Companies' Control Permit may not transfer means of the control in Bezeq at a rate which requires the approval of the Prime Minister of Israel and Israeli Minister of Communications under the Communications Order, without such Ministers prior written approval. The foregoing includes a transfer of the Bezeq interest in one transaction or a series of transactions, by one party or together with the other parties to the Companies' Control Permit or the parties to the Individuals' Control Permit. However, the parties may transfer the means of control of Bezeq among themselves, subject to compliance with certain conditions set forth in the Companies' Control Permit.

The Lending Parties undertook to comply with the provisions of the Communications Law, Communications Order and the lien permit granted to them relating to their rights under the credit agreement entered into among SP2 and the Lending Parties and the realization of the lien. The rights granted to the Lending Parties are deemed to be an encumbrance of collateral and the Lending Parties may not exercise rights pursuant to the means of control except as set forth in the lien permit. The lien permit was granted exclusively to the Lending Parties and any change in the composition of the Lending Parties or a modification of the credit agreement entered into among SP2 and the Lending Parties requires the prior written consent of the Prime Minister of Israel and Israeli Minister of Communications. The appointment of a receiver, on any grounds whatsoever, with respect to the holdings in SP2 or SP2's holdings in Bezeq, will constitute grounds for canceling the lien permit. The violation of the lien permit by the Lending Parties will constitute grounds for canceling such permit and for the appointment of a receiver and trustee, in accordance with the terms of such permit.

According to the Companies' Control Permit, SP2 must at all times be held by an "Israeli Party," as defined in the Communications Order, to the following extent:

(i) At least 19% of each of the means of control of SP2 must be held by an Israeli Party at all times; or

(ii) Both of the following:

- At least 19% of the rights to vote at the general meeting of shareholders of SP2 and the rights to appoint directors of SP2 must be held by an Israeli Party at all times; and

- The right to appoint at least one-fifth of the directors in Bezeq and Bezeq's subsidiaries and not less than one director in each such company will be held by an Israeli Party at all times, provided that the percentage of the Israeli Party's direct or indirect shareholdings in Bezeq is not less than 3% of any of the means of control of Bezeq. Indirect shareholdings will be calculated as the product of the Israeli Party's lowest rate of holdings in each of the means of control in SP2, multiplied by the percentage of the holdings of the parties to the control permit in each of the means of control in Bezeq.

The Prime Minister of Israel and Israeli Minister of Communications have determined that we and B Communications are deemed to be "Israeli Parties," so long as we and B Communications are controlled by a citizen and resident of Israel and that the ownership interest of Messrs. Shaul Elovitch and Yossef Elovitch in each of us and B Communications does not fall below 50%. In accordance with such approval, we and B Communications may only transfer our holdings in Bezeq to an Israeli Entity, subject to all approvals required by law.

The parties to the Companies' Control Permit may not be controlled by any country or government company or a company controlled by a government company. The Companies' Control Permit will terminate if the foregoing condition ceases to exist with respect to any such party without the approval of the Prime Minister of Israel and Israeli Minister of Communications. Such Ministers may authorize a government company to hold an interest in any such party, provided that the government company's aggregate direct or indirect holdings in Bezeq do not exceed 5% of any type of means of control of Bezeq and that it does not control such party.

In the event the Prime Minister of Israel and Israeli Minister of Communications find that the information they were provided is incorrect, that there has been a material change in the details provided by the parties to the Companies' Control Permit which justifies its cancellation or such parties failed to submit a required report, and such Ministers determine that there is probable cause to believe that the provision of the services that Bezeq is required to provide pursuant to its general license (including basic telephone, infrastructure, transmission and data transmission services and ancillary services) or the grounds for determining that any such service has been harmed, such Ministers may take action to cancel the Companies' Control Permit. Upon its cancellation, all the shareholdings purchased under the Companies' Control Permit will be deemed "Exceptional Holdings," as described above.

The Companies' Control Permit also authorizes an interested party in B Communications and our company that is not a party to the Companies' Control Permit or the Individuals' Control Permit to hold means of control in Bezeq, provided that such interested party does not hold more than 15% of any type of means of control of B Communications and our company. The foregoing authorization is subject to the condition (among others) that the percentage of holdings of the parties to the Companies' Control Permit in us, our holdings in B Communications and Eurocom Communications' holdings in us exceed 50% of the means of control in each of such companies at all times. We and B Communications are required to notify the Prime Minister of Israel and Israeli Minister of Communications of the shareholdings of any such interested party.

The provisions of the Companies' Control Permit are subject to the terms of the Communications Order and Communications Law, as they may be amended from time to time.

GoldMind

GoldMind is an Internet media company in Israel. As of December 31, 2009, GoldMind had 10 Internet properties in its network, consisting of three eCommerce websites and seven online content websites. GoldMind changed its name from Smile.Media Ltd. to GoldMind Ltd. on March 22, 2010 in connection with the sale of our legacy Communications Business to Ampal and the assignment of the "Smile" trademark to Ampal.

In March 2009, GoldMind sold its interest in Yahala, an Arabic language portal.

In October 2009, GoldMind acquired the remaining 48% interest in Hype Active Media Ltd., or Hype, which is the owner and operator of TIPO, Israel's leading children's portal. GoldMind first acquired 50% of Hype's shares in August 2005 and acquired an additional 2% in September 2006.

Our capital expenditures totaled NIS 92 million ($24.4 million) for the year ended December 31, 2009 (not including the purchase of rights of use of international fiber optic lines) and NIS 71.4 million for the year ended December 31, 2008. Of the NIS 92.2 million of capital expenditures in 2009, NIS 42.4 million ($13.4 million) was invested in network equipment and computers, NIS 2.7 million ($71,523) was invested in furniture and office equipment and NIS 0.6 million ($159,000 million) was invested in leasehold improvements.

B. Business Overview

Overview

We are a leading communications group in Israel. Our subsidiaries are B Communications Ltd. (formerly known as 012 Smile.Communications Ltd.) and GoldMind Ltd. (formerly known as Smile.Media Ltd.). Since April 14, 2010, our principal subsidiary, B Communications, has been the controlling shareholder of Bezeq (TASE:BZEQ), Israel's largest telecommunications provider. GoldMind is an Internet media company in Israel, which operates websites in Israel.

Business of B Communications

Since April 14, 2010, B Communications has been the controlling shareholder of Bezeq (TASE:BZEQ), Israel's largest telecommunications provider. For detailed information about Bezeq's business, see Bezeq's Periodic Report for 2009, prepared in accordance with Israeli Securities Regulation (Periodic and Immediate Reports), 5730-1970, which report is available on Bezeq's website at http://ir.bezeq.co.il. The information on Bezeq's website is not incorporated by reference into this annual report.

The Israeli Communications Industry

Development and History of the Israeli Communications Industry

The communications industry around the world and in Israel has developed rapidly. The technology and corporate structure and regulations governing the communications industry have undergone and continue to be subject to constant changes. A number of communications groups operate in the Israeli communications market on the basis of marketing cooperation between a number of companies and/or common holdings for the supply of comprehensive communications services, thus utilizing the marketing and operational advantages inherent in such a structure.

Regulatory Changes in the Israeli Communications Industry

The Israeli communications industry is regulated and controlled by the Israeli Ministry of Communications, including by means of issuance of licenses for operators. During recent years, the Ministry of Communications has issued licenses to a limited number of operators for data transmission and communication, broadband Internet access and telephony (including licenses for the provision of domestic landline communication services with no obligation to provide universal, nationwide service, as compared to Bezeq, which is obliged to provide its domestic landline communication services on universal basis), and there is intense competition is these areas.

The Gronau Committee

On March 12, 2008, a report was published by a public committee headed by Professor Gronau that was appointed by the Minister of Communications in December 2006 to formulate detailed recommendations for a policy and principles of competition in the communication market in Israel, referred to as the Gronau Committee. On August 13, 2008, the Minister of Communications announced his decision to adopt the conclusions of the Gronau Committee, subject to a number of changes, which constitute the policy of the Minister of Communications for the near future.

The following measures were advanced by the Ministry of Communications, aimed at enhancing competition in the sector, in part following a decision made by the government and the recommendations of the Gronau Committee:

Changes in the fixed-line sector. The Minister of Communications decided that the Ministry of Communications will prepare the regulatory and pricing infrastructure for the establishment of a wholesale market for fixed-line communications (including resale and the provision of access to infrastructure), including arrangements for local loop unbundling, or LLU.

Tariff flexibility for Bezeq – alternative service packages. To improve the efficiency of the approval process for alternative payment packages, the Minister of Communications decided to change the system for their approval so that Bezeq would be able to offer packages 45 days after submitting a detailed application to the Ministry of Communications, unless the Minister of Communications or the Minister of Finance gives notice of his objection to the application. The Minister adopted the recommendations of the Gronau Committee that so long as Bezeq's market share is more than 60%, the control of Bezeq's tariffs should continue in the format of fixed prices and with respect to alternative payment packages, the smaller Bezeq's share in landline telephony in Israel, the higher the maximum discount permitted (a 15% discount so long as the market share is higher than 85%; 25% discount when the market share is between 75% and 85%; and 40% discount when the market share is between 60% and 75%). The alternative payment package will be approved only if it is worthwhile for at least 30% of the subscribers who consume the services offered in the package.

Mobile virtual network operators. In January 2009, the Israeli Government's decided to take actions to promote the entry of mobile virtual network operators, or MVNOs, into Israel's cellular market and on January 20, 2010, the Minister of Communications signed regulations allowing the grant of MVNO licenses.

Multi-channel television – basic channel package. Under a proposed amendment to the Communications Law, as of August 1, 2012, DBS and HOT will be obligated (i) to allow any subscriber to connect to a package which includes Israel's five non-cable television channels, referred to as the Basic Package, the payment for which will be calculated based on subscriber connection costs plus reasonable profit for DBS and HOT; (ii) to allow any subscriber to separately purchase any other channel offered by them and not to make the purchase of one channel conditional upon the purchase of another channel; (iii) to set a price for the Basic Package based on usage cost plus reasonable profit. In addition, under the proposed amendment, DBS and HOT will be authorized to broadcast commercials commencing January 1, 2012. The Broadcast Council will determine rules regarding the maximum time during which commercials may be broadcast and on which channels which will be in effect for a period of three years.

Structural separation. Under its current general license, Bezeq is required to maintain full structural separation between itself and those subsidiaries and affiliates specified in the license. Bezeq is also required to maintain separate operations from those of Pelephone due to the determination of the Antitrust Commissioner. The HOT group's licenses also required them to maintain structural separations. The Gronau Committee's recommendation, as adopted by the Ministry of Communications, determines to leave in place Bezeq's structural separation so long as only two companies own fixed-line infrastructure that is deployed nationwide. Furthermore, should the Minister find, within two years following the establishment of the wholesale market for fixed communications (including resale and the provision of access), that the manner in which Bezeq established the wholesale market prevents greater competition in the domestic communications market, then he will act to apply structural separation between Bezeq's infrastructure operations and service operations.

Service Packages. The Gronau Committee recommended that Bezeq and its subsidiaries be allowed to offer service packages consisting of telephony and Internet protocol, or IP, television services once the wholesale market arrangements, as described above, have been implemented.

During May and June 2010, a few amendments to the licenses of Bezeq and its subsidiaries were issued regarding the provision of breakable bundled service packages (in which there is no requirement that each service in the package can also be purchased separately on the same terms as provided in the service package). At this preliminary stage, Bezeq and its subsidiaries are examining these new amendments and cannot estimate the impact of such amendments on their operations and results.

Structural changes in the data transmission and communications sector.

The data transmission and communications sector, particularly at high speeds, was opened to competition at the end of 2000. The companies that currently operate and compete in this area are Bezeq, Cellcom, Partner, HOT, and the Internet companies that also lease ISP infrastructure.

HOT started to provide telephony services on a commercial basis in November 2004. The Ministry of Communications granted HOT a license in 2000 for the provision of broadband Internet access services to ISPs, which was subsequently replaced with a license to provide fixed-line domestic services, including telephony, data communications, transmissions and infrastructure and access to Internet providers in nationwide deployment. On June 4, 2009, the Ministry of Communications announced an amendment to the license of HOT requiring structural separation between HOT's multi-channel television services and telephony services.

The Ministry of Communications' policy requires Bezeq and HOT to provide ISPs with "open access" to their infrastructure.

Since 2005, the Ministry of Communications has granted several general licenses for the provision of fixed-line domestic services without a geographical deployment or universal service obligations. In April 2006, Cellcom was granted a special general license to provide landline telecommunication services and has been offering these services since July 2006. Cellcom's entry into the domestic landline telephony market enables it to offer its customers a complete basket of solutions that includes domestic telephony, data communications and cellular. In February 2007, 012 Smile Telecom started to provide voice over broadband, or VoB, services in Israel and was the first company to obtain a commercial license in Israel to offer VoB services without any limitation on the number of subscribers. Partner was granted a special license for providing data transmission and communication services on August 15, 2006. During the winter of 2008, Partner began to provide VoB telephony services.

Regulatory changes in the cellular market.

The measures set forth below were adopted by the Ministry of Communications, aimed at enhancing competition in the cellular market, in part following a decision made by the Israeli Government and the recommendations of the Gronau Committee.

In March 2008, the Ministry of Communications published a public hearing document concerning the policy for regulating commercial telephony services. Commercial telephony services include, among other things, information, voice and visual services, entertainment and dating services. Bezeq believes that the regulations if adopted as proposed may harm Bezeq's revenues in the commercial telephony services sector. As of the date of this annual report, the Ministry of Communications has not determined its final policy on this subject.

In November 2009, the Ministry of Communications, following the Israeli Government's decision to review roaming cellular tariffs, approached the cellular operators and requested detailed data concerning roaming cellular tariffs. As of the date of this annual report, Bezeq is not aware of any decisions having been made in this matter.

In August 2009, the Ministry of Communications published a request to receive the public's position on the regulation of the provision of broadband services over a cellular network. As part of the hearing, the Ministry of Communications wishes to examine the possibility of requiring a separation between the provider of access to broadband infrastructure and the ISP. Bezeq submitted its position that it objects to the proposal and presented its position to the Ministry of Communications at a hearing in December 2009. As of the date of this annual report, there have been no further developments.

In February 2010, an amendment to Bezeq's cellular licenses was issued, which provides that as of August 1, 2010, a new tariff structure will take effect for international calls made from mobile telephones. Under the new tariff structure, a subscriber will not pay the cellular operator for the air-time for the international call made from a mobile telephone, but rather the subscriber will pay a tariff consisting of the international operator's price to be determined by the international operator and a cellular connection fee, as determined by the regulations governing cellular connection fees. Bezeq expects that the new tariff structure will adversely affect its revenues from international calls made from cellular telephones.

During March 2010, the Israeli Ministry of Communications published for public comment proposed changes to the cellular license with respect to several consumer services and cellular tariffs. If the changes are adopted, among other things, Bezeq would be required to obtain the permission of customers for the use of various content services and it would also be required to inform customers via text message when they have used 75% and 90% of a package of services. Bezeq believes that such changes, if adopted, would likely have substantive consequences on its business and operations. Bezeq is currently preparing its responses to the proposed changes and intends to request a meeting with representatives from the Ministry of Communications to discuss the issues.

On May 4, 2010, Bezeq was notified by the Minister of Communications that he is considering amending the existing regulations governing mobile connection fees in a manner that would reduce cellular connection rates for call and text messages commencing August 1, 2010, to NIS 0.0414 and to NIS 0.0019 (excluding VAT), respectively. In addition, the Ministry of Communications is considering further gradual reductions in the cellular connection fees for calls and text messages. Bezeq is currently unable to assess the full impact of the proposed amendment; however, it believes that if the proposed amendment is adopted and implemented in full, it would have a material adverse effect on its business results.

Domestic Landline Operators

On June 3, 2004, new Israeli regulations were published regarding the provision of domestic landline services, on a non-universal service basis. Under such regulations, an application may be filed by competitors of Bezeq for a special general domestic to provide landline services, which does not involve an obligation to provide services to the entire Israeli public, as is required under Bezeq's general license. 012 Smile Telecom (now owned by Ampal), or 012 Smile, Cellcom and Partner, the principal competitors of Bezeq in this field, have all been granted such licenses and in 2009 they increased their activity in the area. Unlike Bezeq, Partner, Cellcom and 012 Smile are entitled to offer packages that combine cellular and landline services, which gives them a competitive advantage over Bezeq.

Mobile Virtual Network Operators

Pursuant to the Israeli Government's decision to encourage the entry of MVNOs into Israel's cellular market, in January 2009, the Ministry of Communications published for the general public's comments the draft of the proposed MVNO license, as well as the key rules of the Communications Law which the Minister of Communications intends to adopt in order to regulate the conditions for granting MVNO licenses.

In July 2009, an amendment to the Israeli Communications Law was approved requiring the Minister of Communications to complete all procedures required in order to commence the grant of MVNO licenses by October 1, 2009. Under the amendment, if the owner of an MVNO license holds negotiations with a cellular operator and such negotiations are not successful after 6-9 months due to anti-competitive behavior of the cellular operator, the Minister of Communications shall intervene in the commercial conditions in accordance with the powers granted to him by law. In January 2010, regulations regulating the conditions to qualify for an MVNO license were published. In June 2010, the first MVNO license was issued to Telecom 365 Ltd., an Israeli company owned by New Hamashbir Lazarchan Ltd.

VoB (Voice Over Broadband) Technology

According to a policy document published by the Ministry of Communications on January 31, 2007, Bezeq and its subsidiaries may provide VoB services only after Bezeq's market share of the Israeli domestic landline telephony market in a particular customer sector (business or private) falls below 85%. According to a notice of the Ministry of Communications, Bezeq's market share fell below 85% in the private sector in June 2008 and in the business sector in September 2009. On February 8, 2009, the Ministry of Communications granted Bezeq International's subsidiary, B I P Telecom. Ltd., a special general operator's license to provide domestic VoB services. On August 2, 2009, Bezeq International began providing domestic VoB services to its private customers. On December 30, 2009, the foregoing license was amended to permit Bezeq International to provide the services to its business customers.

Call completion tariffs for a VoB operator are the same as those for calls completed via Bezeq's fixed-line telecommunications network or another domestic landline operator. Call completion tariffs for domestic landline operators are expected to be reviewed by a public committee that will be appointed to draft recommendations for the landline telephony market.

WiMAX Technology

On March 1, 2009, the Ministry of Communications published its policy regarding the allocation of frequencies for WiMAX technology and establishing a broadband wireless access network using the WiMAX technology. WiMAX is a technology that aims to provide wireless data over long distances, in a variety of different methods, from point to point links to full mobile type access. According to the policy document, WiMAX frequencies will be allocated in two separate tenders for different frequencies. The first tender will allocate frequencies exclusively to a new operator and other operators will be entitled to participate in the second tender, including existing cellular operators. To date, neither of these tenders has been published.

Competition in the Israeli Communications Market

The Israeli communications market is dominated by four main groups, the Bezeq group, the IDB group (which controls Cellcom and 013 NetVision), the Partner group and the HOT group and several other players, each having interests in one or more of the main communications sub-sectors.

The Ministry of Communications has encouraged competition in the communications market by imposing restrictions and limitations on Bezeq and its subsidiaries, including:

- an obligation to maintain complete structural separation among Bezeq and its subsidiaries pertaining to corporate structure and management systems, including finance, marketing, manpower, assets and data;
- supervision and regulation of part of Bezeq's tariffs; and

- an obligation to provide "access" infrastructure services to other licensees on an equal, non-discriminatory basis and a prohibition on granting Bezeq's subsidiaries advantageous terms when providing such services.

The Ministry of Communications has also supported competition by:

- separating infrastructure and service providers;
- granting new licenses and encouraging new and innovative technologies such as VoB; and
- mandating number portability.

Domestic Landline Communications Market. For the year ended December 31, 2009, NIS 5.0 billion ($1.3 billion) of Bezeq's total revenues were attributable to revenues from domestic fixed-line communications. Competition in the domestic landline communications market began when HOT was granted a general license for the provision of domestic fixed-line telephony services in November 2003. Unlike Bezeq, HOT is entitled to offer bundles to its private customers and offers packages of broadband Internet access, telephony and cable television to private customers. On March 22, 2010, the Ministry of Communications published a hearing for HOT regarding the marketing of such packages, including determining that the maximum commitment period will be 18 months for all of the services in the package. This limitation would also apply to similar joint packages offered by Bezeq if they are permitted.

Since 2004, the Minister of Communications has been authorized to grant special general licenses for the provision of domestic landline communication services, without an obligation to provide universal service or an obligation for minimal geographic deployment as is required under Bezeq's general license. Such licenses were granted to a number of operators, among them 012 Smile, Cellcom and Partner.

Cellular services. There are four companies presently providing cellular services in Israel: Cellcom, Partner, Pelephone (a wholly-owned subsidiary of Bezeq) and MIRS. For the year ended December 31, 2009, NIS 5.1 billion ($1.4 billion) of Bezeq's total revenues were attributable to revenues from cellular services.

International Long Distance Market. The international long distance market in Israel is also highly competitive. There are currently four competitors in the market: Bezeq International, 012 Smile, 013 NetVision and Xfone.

ISP Market. There are a number of competitors in the ISP market in Israel including Bezeq International, 012 Smile, 013 NetVision, Partner and two minor niche players, and Bezeq believes that HOT is preparing to enter this market.

NEP services. NEP services primarily include traditional telephone exchanges, data communications and IP telephony. The traditional field of telephone exchanges is characterized by a large number of competitors and by fierce competition, which has given rise to price erosion. The most prominent competitors of Bezeq International, is this area are GlobeCall, Tadiran and Tel-Yad. The data communications and IP telephony sector is characterized by the entry of IT companies entering into telephony. These are companies such as Binat, IBM, Netcom and Teldor, which are substantially different from traditional NEP companies and are technologically sophisticated. Telecommunication companies are also conglomerating and new operators are entering the market with the intention of providing customers with total communications solutions, such as telephony, transmission, data communications, Internet, and information security.

For the year ended December 31, 2009, NIS 1.3 billion ($338 million) of Bezeq's total revenues were attributable to revenues from international calls, ISP services and NEP services.

Multi-Channel Television Market. The field of television broadcasting in Israel is highly regulated. Broadcasting is carried out pursuant to various broadcast licenses and is subject to the ongoing supervision of the Ministry of Communications and Council for Cable TV and Satellite Broadcasting. Multi-channel television broadcasts have been provided in Israel since the early 1990s. Since December 2006, the cable companies operating at such time merged into a single merged cable company, HOT, which supplies cable television services to all of the subscribers of the merged cable companies pursuant to a long-term broadcast license. HOT holds all of the rights in a limited partnership which owns the cable network infrastructure, including the terminal equipment and broadcasting centers.

Bezeq, through DBS, known also by its trade name YES, is currently the only company in Israel that operates in the satellite multi-channel television broadcasting sector. DBS was founded on December 2, 1998 and has been providing this service since July 2000. This service provides multi-channel encrypted digital television broadcasts and value-added services to subscribers. Most of DBS's income is derived from subscription fees and additional payments made by viewers.

Our Legacy Communications Business

Prior to the sale of by B Communications of its legacy Communications Business, B Communications was a leading communication services provider in Israel offering a range of services, including broadband and traditional voice services. B Communications' broadband services included broadband Internet access with a suite of value-added services, specialized data services, local telephony via VoB, primary rate interface services, IP Centrex, server hosting and a WiFi network of hotspots across Israel. B Communications' traditional voice services included outgoing and incoming international telephony, hubbing services for international carriers and roaming and signaling services for cellular operators. B Communications offered its broadband and traditional voice services to a wide audience, which included residential and business customers, including small office-home office, or SoHo, customers, small-medium size enterprise, or SME, customers, and large corporate customers, as well as international carriers and cellular operators. B Communications provided these services through its integrated multipurpose network that was deployed through points of presence throughout Israel and in England, Germany and the United States. As of December 31, 2009, B Communications had over one million customers registered in its database.

Broadband Services

As of December 31, 2009, B Communications had over 500,000 active residential, business and carrier customers for its broadband services, including many of the largest companies in Israel.

Internet Access and Value-added Services

Prior to the sale of its legacy Communications Business, B Communications was one of Israel's three leading ISPs providing high speed broadband access to the Internet via ADSL and cable networks. B Communications' estimates that its market share of the broadband Internet access market as of December 31, 2009 was approximately 32%- 33% based on its broadband market analysis. In addition to Internet access, B Communications offered a diverse suite of value-added services that were incremental to its core Internet access service to residential and business customers, including wireless and wired home networking, e-mail and security services.

Specialized Data Services

Prior to the sale of its legacy Communications Business, B Communications provided specialized data services to bandwidth-intensive organizations and international carriers, allowing them to transmit electronic data from point to point or from point to multi-points. B Communications' fee structure for these services depended on three main factors: volume of capacity, distance and the type of technology used.

VoB Services

Prior to the sale of its legacy Communications Business, B Communications offered VoB local telephony services. B Communications' transmitted these calls using VoIP technology, which converts voice signals into digital data packets for transmission over the Internet and provided its service by using its customers' existing broadband Internet connections.

Primary Rate Interface Services

From December 2005 and until the sale of its legacy Communications Business, B Communications offered primary rate interface, or PRI, services to business customers This service, which offered point-to-point PRI ISDN communications lines, was primarily used by large corporate customers.

IP-TRUNKING Services

From February 2007 and until the sale of its legacy Communications Business, B Communications offered IP-TRUNKING services, which provide interconnections between service providers using session initiation protocol, or SIP, to business customers. This service, which offered point-to-point IP communications lines, was offered to business users.

IP Centrex

From January 2005 and until the sale of its legacy Communications Business, B Communications offered business customers an IP-based PBX, or telephone switching system, which connected to the customer through a broadband connection, IP Central Office Exchange Service, or IP Centrex, and offered VoIP and other IP-based services as well as connectivity to the regular telephone system.

Server Hosting and Co-location Services

Prior to the sale of its legacy Communications Business, B Communications operated three server hosting facilities. Many customers utilized its services to manage their web servers. Clients were able to configure and operate their servers remotely and save on router, Internet connection, security system and network administration costs. B Communications also offered co-location services to its business customers at its server hosting facilities. As part of its co-location services, B Communications housed the back-up servers used by businesses to ensure that their systems do not lose data or suffer a lengthy interruption of service because of a power outage, computer fault, or other reasons.

WiFi Network

Prior to the sale of its legacy Communications Business, B Communications operated a comprehensive network of hotspots covering hotels, hospitals, airports and other public areas. Many of the contracts that it entered into in connection with these services provided for revenue sharing arrangements.

Traditional Voice Services

Prior to the sale of its legacy Communications Business, B Communications offered traditional voice services to residential and business customers throughout Israel and to international carriers and local cellular operators.

Incoming and Outgoing International Telephony Services

Prior to the sale of its legacy Communications Business, B Communications was one of the three largest international telephony services providers in Israel, providing global international telephony services through direct connections with approximately 90 carriers. As of December 31, 2009, B Communications estimates its market share of the international telephony market was 34% based on the number of incoming and outgoing minutes in Israel.

B Communications' outgoing international telephony services to its residential and business customers included direct international dialing services, international and domestic pre-paid and post-paid calling cards and call-back services. B Communications sold pre-paid cards to its distributors, which it treated as business customers, for distribution in the residential market. B Communications offered its incoming international telephony services to international carriers, which included termination services for telephone calls originating outside of Israel.

Hubbing Services

Prior to the sale of its legacy Communications Business, B Communications provided hubbing-traffic routing between approximately 90 network operators. Hubbing is defined as architecture where several network operators connect to a peering point, or a hub, from where they are rerouted.

Roaming and Signaling Services

Prior to the sale of its legacy Communications Business, B Communications provided roaming and signaling services for cellular operators. Signaling messages indicate a mobile user's location while roaming within Israel through its signal transfer point or when traveling abroad. B Communications billed the cellular operators based on the number of signaling messages sent and received.

Marketing and Sales

Prior to the sale of its legacy Communications Business, B Communications focused on presenting a "one-stop shop" solution to its residential and business customers by offering a diverse basket of solutions. B Communications sought to strengthen its brand awareness and to create a unified branding approach among its voice and data customers for our various service offerings. B Communications engaged in a variety of marketing and promotional activities to stimulate awareness of its broadband access services, traditional voice services and VoB telephony services. It also actively promoted and cross-sold its services to existing customers with special bundled offerings aimed at servicing their communications needs and enhancing customer loyalty. This marketing and communications strategy was executed through all levels of its business.

Customer Service and Support

Prior to the sale of its legacy Communications Business, customer service and support operations were supported by integrated customer relationship management and computer technology integration systems. B Communications' sales and customer service functions were carried out by separate service centers that responded to calls from residential and business customers. B Communications serviced its customer groups through dedicated multi-language call center personnel and multi-language technical support staff.

Network and Technology

Prior to the sale of its legacy Communications Business, B Communications continuously worked on developing and enhancing its technology platform and infrastructure. B Communications invested heavily in its multipurpose network infrastructure, which had been specifically designed to transmit data using IP. B Communications' multi-purpose network supported broadband and traditional voice services across Israel, as well as dial-up, ADSL, ISDN and cable broadband services. Its network configuration supported the convergence of voice and data services, such as broadband Internet access, VoB and traditional voice services, as well as advanced technologies. In addition, B Communications used its network to provide specialized data services to bandwidth-intensive organizations and international carriers using a variety of technological solutions to satisfy the demands and changing needs of our business customers.

Competition

Prior to the sale of its legacy Communications Business, B Communications faced competition in all segments of its operations. In each segment, competition to a large extent depended on price and quality of service. Some of B Communications' competitors had greater financial, technical and marketing resources than it. Moreover, the services offered by the legacy Communications Business were subject to regulation by the Ministry of Communications, whose policy is to encourage new entrants and not limit the number of licenses, which increased competition.

Government Regulation

The Israeli communications market is highly regulated and as a result, a significant part of the legacy Communication Business was regulated by the Israeli Communications Law, the regulations promulgated under the Israeli Communications Law and the provisions of our licenses. The Ministry of Communications has the regulatory authority and broad discretionary powers under the Israeli Communication Law and licenses that B Communications' received in connection with its legacy Communication Business.

Business of GoldMind

GoldMind is an Internet media company in Israel. As of December 31, 2009, GoldMind had 10 Internet properties in its network, consisting of three eCommerce and seven online content websites. The Internet media and eCommerce industry in Israel is highly competitive and evolving and a few Israeli media groups account for a significant portion of these industries.

eCommerce

The growth of the Internet is driving the expansion of eCommerce. Consumers use the Internet for price discovery and comparison, a resource for information and as a convenient way to purchase goods and services. We believe that increased broadband penetration, improvements in network infrastructure and payment security, and increasingly attractive and functional online storefronts have made online shopping an efficient and convenient way to shop for many consumers. Retailers are attracted to eCommerce for a number of reasons, including the lower cost of managing and maintaining a website as opposed to physical storefronts, the flexibility to change marketing focus to meet customer demands in real-time, the ability to reach and serve a large and geographically-dispersed group of customers efficiently from a central location, and the potential for personalized low-cost customer interaction.

GoldMind has long-term relationships with its merchandise suppliers, and had 97 suppliers as of December 31, 2009 compared to 111 suppliers as of December 31, 2008. In 2009, GoldMind acquired approximately 66% of its merchandise from suppliers who have been with it at least two years.

Online Advertising

Much of today's Internet content is supported by an advertising business model. The largest, broadest-based online publishers now regularly attract large multi-national advertisers; while a growing number of smaller, niche online publishers offer advertisers a means of targeting their campaigns to specific audiences who are not efficiently reached through traditional advertising channels. In addition, the increase in broadband penetration and availability of advanced, real-time analysis tools are making online advertiser campaigns more dynamic, effective and measurable compared with traditional offline media.

The ongoing growth in online usage by customers has created an increase in advertisers' use of online media as audiences shift from traditional media to online media. Traditional online media companies, which historically provided mainly offline advertising services, are increasingly providing new and complementary online services to meet customers viewing behaviors. Media companies are effectively capitalizing on this shift by helping advertisers create and execute Internet marketing solutions that both engage users to interact with advertisers' brands as well as provide valuable insights into their customer base. With evolving advertising technologies, extensive market research and the understanding of online user behaviors, online media companies can provide targeted marketing services such as direct marketing, lead generation and advertising, all delivered through the Internet medium.

GoldMind's Opportunities

Israel's Internet market is highly penetrated in terms of Internet usage, and we believe that there are opportunities to increase online advertising and eCommerce revenue from the Israeli Internet market as Internet and broadband usage continue to proliferate in Israel. In addition, as Internet businesses increasingly adopt new business models prevalent in the United States and European markets, we believe there are opportunities to improve the revenue generating potential of their Internet properties. GoldMind has identified the following opportunities:

Expand GoldMind's market share in the developing eCommerce market in Israel. We expect the eCommerce market in Israel to grow as Israeli consumers build familiarity and trust with various online merchants, and as traditional retail merchants begin to appreciate the inherent benefits of the Internet distribution channel. Additionally, Israel's current eCommerce market is dominated by three business models, which are price comparison, auction and group sales, where products are offered for sale at a low price subject to the condition that a specified quantity of the product is sold to a group of consumers. We also believe advances in online merchandising and selling models will drive more supply and demand of eCommerce goods and services.

We believe that GoldMind's experience in developing, operating and monetizing Internet properties targeted at the diverse Israeli audience that encompasses a wide variety of users differing in culture, consumer purchasing power, desired content and Internet activity, has provided it with the requisite experience and expertise necessary to penetrate eCommerce markets in emerging international markets, which have similar consumer characteristics.

Enhance revenue generation from online advertising. We believe that online advertising in Israel will continue to grow as advertisers in Israel increasingly gravitate to online media as they address the Internet audience and seek to maximize the effectiveness of their advertising expenditures. The development of broadband technology enables us to offer a wider variety of online advertising services, such as online video advertising and sophisticated search engines. We believe that GoldMind's historical relationships with direct advertisers and advertising agencies and its knowledgeable advertising sales force provide it with the ability to optimize its advertising space and inventory.

Internet Properties

GoldMind currently has 10 Internet properties in its network, consisting of three eCommerce websites and seven online content websites. The four top revenue-producing properties within GoldMind's network, P1000, Zahav.ru, Start and Nirshamim, accounted for approximately 94% of its revenue in the year ended December 31, 2009. Most of GoldMind's websites are in the Hebrew language, catering to the Hebrew-reading population. The following is a description of GoldMind's properties:

eCommerce Websites

P1000 ("a thousand times better" in Hebrew) serves as an eCommerce platform for suppliers and purchasers of consumer products. P1000 also serves as the platform for P1000.ru, GoldMind's Russian language eCommerce platform. Most of the transaction elements, such as inventory management and provision of services, are performed directly by the website's suppliers. GoldMind derives revenue from the website from commissions that are payable by suppliers for completed sales. Online sales on the P1000 and P1000.ru websites are divided into a few categories, including auctions and group sales. P1000 targets the general population in Israel and P1000.ru targets the Russian-reading population in Israel.

Ynet Shops is a collaboration between GoldMind and Ynet.co.il, one of Israel's leading news websites and web portals. Ynet Shops serves as an eCommerce platform for suppliers and purchasers of consumer products similar to that of P1000 and is solely operated and managed by GoldMind.

Online Advertising Properties

General Portals

Start is a portal and homepage-directory that refers its visitors to content on other websites. Start offers its users a brief glance at news, sport, business, entertainment, politics and current events and provides links to leading websites. Start also offers its users search engines and many other useful applications developed by Start over the years, such as the ability to search in all leading search engines concurrently, access to personal email accounts, a dictionary, the ability to search addresses and phone numbers and access maps, and also offers its users the ability to design their own homepage according to their own needs and interests. Start also offers an online social network that enables its users to communicate through a wide variety of Internet forums, blogs and web communities and also enables users to share content, photographs, pictures and films by using advanced media systems. Start targets the Hebrew reading population in Israel.

Vertical Portals

Start Ktantanim ("ktantanim" means "little ones" in Hebrew) is a children's portal, designed for children of the age of two to six years and their parents. The portal offers a variety of games suitable for young kids, as well as useful and interesting information for the parents.

Vgames is the largest video gaming site in Israel and is considered the market leader in the Hebrew language. Vgames provides free and subscription-based content to over 700,000 unique visitors each month and supplies content to more then 10 large Israeli portals, including one of the leading news websites and web portals in Israel, Ynet.co.il, and Israeli leading teen sites: KidsTv and Tipo. The content in Vgames can be divided into four main categories: video gaming magazine (reviews and news), online free games, community forums, and games for download.

Zahav.ru ("Zahav" means "gold" in Hebrew) is a leading Russian language Israeli portal, targeted at the Russian reading audience in Israel and abroad, with an average of approximately 400,000 unique users per month in the year ended December 31, 2009. The portal aggregates a broad range of high-quality content in the Russian language covering a wide range of topics including news, business, video, sports, entertainment, dating, tourism and cooking. Zahav.ru hosts a Russian-language eCommerce website, which is the Russian version of our P1000 website.

Nirshamim.co.il (Nirshamim Lalimudim means “registering for studies” in Hebrew) is a marketing platform that enables Israeli prospective students to receive information and registration kits from academic and vocational institutions in Israel. The institutions list their academic programs on the website free of charge, and pay a fee to Nirshamim when a prospective student contacts them or registers with the institution.

Tipo is a children’s portal offering its visitors a broad array of content channels, various activity channels and web tools. This website offers its users the ability to create personalized websites, upload and view user-generated content, and gives users access to online forums, music clips, ring tones and general content.

Seret (Seret means “movie” in Hebrew) is a popular movie and entertainment information website in Israel. The portal contains news and gossip items from Israel and abroad, videos and DVDs, movie trailers, reviews and show times. The website also operates an eCommerce store that sells movie tickets, videos and DVDs. We use Seret as the movie website for our leading general portals and Start. In addition, Seret is a content provider for several of the largest Israeli cellular companies.

Sales and Marketing

GoldMind designs its marketing activities to promote its brands and to attract users and advertisers to its Internet properties. GoldMind markets its Internet properties to users primarily through online advertising and to target advertising companies through advertising campaigns by way of both online and traditional offline media. A key component of its marketing program is the cross-network marketing of its multiple websites. GoldMind’s websites generally contain relevant links and references to its other websites and it promotes content swapping between websites while assigning credit and a link to the original website from which the content was obtained. In addition, GoldMind’s general portal, Start, promotes the content of its vertical websites.

As of December 31, 2009, GoldMind had eight employees engaged in sales and marketing for its Internet properties. In addition, several of GoldMind’s vertical portals employ small in-house sales teams focusing exclusively on sales for their websites. As of December 31, 2009, Nirshamim employed three persons selling to educational institutions, Tipo employed one sales persons and Seret employed two sales persons.

Competition

The Internet media and eCommerce industry in Israel is highly competitive and evolving. GoldMind competes for advertisers, users and business partners with numerous companies in Israel and elsewhere that offer content in its broad areas of focus.

eCommerce. Three of GoldMind’s principal competitors in Israel, Walla Shops (which is owned by Bezeq’s 44.99%-subsdiairy Walla!), GET IT and Nana Shops, as well as OLSALE, an independent portal compete with its eCommerce websites and offer similar goods and services. These websites compete with GoldMind for both users and the merchants that provide merchandise for its websites.

Internet websites. GoldMind’s principal competitors among the large general purpose portals in Israel are Walla (which is 44.99%-owned by Bezeq), Ynet, Tapuz and Nana10. In addition, many Israelis use international portals, such as Google. GoldMind also competes with special interest websites focused on the same vertical markets on which it focuses. For example, GoldMind’s Russian language property competes with similar websites.

Traditional offline media. GoldMind has always competed for consumers and advertisers in its areas of focus with the traditional offline media, such as print, television and radio. As traditional offline media continues to introduce more multimedia offerings into the market, GoldMind will continue to compete with them for consumers and advertisers.

Customers

For the year ended December 31, 2009, 38% of GoldMind's advertising revenue was obtained from Israeli traditional and interactive advertising agencies and 62% of its advertising revenue was from businesses to which it directly sells advertising on its properties. GoldMind's eCommerce customers include local suppliers, local importers of goods from abroad and private customers who purchase online directly from GoldMind.

Government Regulation

GoldMind's eCommerce and media operations are subject to Israeli regulation.

Consumer protection in the area of eCommerce and advertising is heavily regulated in Israel and the consumer protection laws are constantly evolving. GoldMind is subject to the Israeli Consumer Protection Law 5741-1981, or Israeli Consumer Protection Law, which regulates, among other things, the legal framework of eCommerce transactions, misrepresentation to consumers and misleading advertising. The Israeli Consumer Protection Law extends to acts and omission performed after the date of the contract with the customer. Our eCommerce suppliers have undertaken in their agreements with us to comply with the Consumer Protection Law and related regulations. The Israeli Class Actions Law, 2006 and the Israeli Consumer Protection Law include an expansive list of causes of action for which a class of litigants may bring suit, among others, regarding eCommerce transactions.

In addition, GoldMind's operations, specifically its content operations, are subject to Israeli rules regulating intellectual property rights relating to music and other content services that we purchase from third parties. These rules require us to initiate or defend litigation in cases in which we have purchased content from third parties who present themselves as the owners of the intellectual property rights included in the content or as the representatives of the owners of the intellectual property, when in fact it may not be the case. Such litigation proceedings may be costly and if we are not successful in our defense, we may be forced to pay damages or obtain licenses for the infringing product or service.

GoldMind's operations are also subject to data protection rules and protection of privacy laws, primarily relating to our Internet website subscribers. In addition, other legislative acts, such as the amendment to the Communications Law regulating "spam" and amendments to the Consumer Protection Law also impose heavy obligations on our media operations. For example, an amendment to the Israeli Communication Law came into effect which (among other things) generally requires a subscriber's explicit permission to receive advertising by way of electronic mail, facsimile, automatic dialing systems and SMS text messaging. We are implementing procedures to comply with these amendments.

Israeli law does not impose any registration or licensing requirements on owners and operators of Internet properties.

Intellectual Property

Copyrights, service marks, trademarks, trade secrets and other intellectual property are important to our success and competitive position. GoldMind relies on trademark and copyright law, trade secret protection, non-competition and confidentiality and/or license agreements with our employees, customers, partners and others to protect our intellectual property rights.

GoldMind currently holds numerous Internet domain names. Domain names generally are regulated by Internet regulatory bodies and the regulation of domain names in Israel and other countries is subject to change.

GoldMind has obtained licenses to bundle various third party software products in its front-end configuration software product. GoldMind intends to maintain or negotiate renewals of all existing software licenses and authorizations as necessary and may also want or need to license other applications in the future. Such licenses or renewals may not be available when required.

GoldMind's management and most of its full-time employees have entered into confidentiality, non-competition and non-solicitation agreements with it. However the degree of protection afforded by these agreements under Israeli law may be more limited than the protections afforded under the laws of other jurisdictions.

GoldMind also relies on certain technology licensed from third parties and may be required to license additional technology in the future for use in managing its Internet websites and providing related services to users and advertising customers.

We have filed trademark applications in Israel for "B Communications" and "GoldMind."

C. Organizational Structure

Eurocom Communications, our controlling shareholder, is the beneficial owner of 70.79% of our ordinary shares (13,564,746 ordinary shares) as of June 30, 2010. Mr. Shaul Elovitch, our chairman and the chairman of the board of directors of Eurocom Holdings (1979) Ltd., or Eurocom Holdings, holds 80% of Eurocom Holdings' shares and 75% of Eurocom Holdings' management shares, and Mr. Yossef Elovitch, his brother and our director, holds 20% of Eurocom Holdings' shares and 25% of Eurocom Holdings' management shares. Eurocom Communications is 50.33% owned by Eurocom Holdings and 49.0% of its shares are held by four holding companies, which are 80% owned by Mr. Shaul Elovitch and 20% owned by Mr. Yossef Elovitch. The remaining 0.67% interest in Eurocom Communications is directly owned by Mr. Shaul Elovitch. Accordingly, Mr. Shaul Elovitch may be deemed to have the sole voting and dispositive power over our ordinary shares held by Eurocom Communications. Mr. Shaul Elovitch may also deemed to be the beneficial owner of 4,128 of our ordinary shares held of record by his wife, Mrs. Iris Elovitch.

Eurocom Communications' main controlled holdings are: Eurocom Cellular Communications Ltd., the representative of Nokia mobile phones in Israel; Eurocom Industries (1986) Ltd., a holding company that owns Eurocom Digital Communications Ltd. (formerly: Eurocom Marketing (1986) Ltd.), or Eurocom Digital, which markets electronic office equipment and consumer electronic products; Trans-Global Industries PTE Ltd. (formerly: Eurocom Digital Systems Ltd.), a provider of customized networking solutions to businesses based on telephone network equipment and home digital telephones; Satcom Systems Ltd., a global provider of satellite broadband communications services and Gilat Satcom Ltd., a fully owned subsidiary of Satcom Systems Ltd., which specializes in providing fixed and mobile communication services via satellite; Space-Communication Ltd, the owner and operator communication satellites. Eurocom Communications indirectly holds 85% of Radius Broadcasting Ltd. and Radio F.M. Hashfala Ltd., Israeli companies, each of which owns a regional radio station in Israel.

We operate through two principal subsidiaries:

- B Communications, which is the controlling shareholder of Bezeq, Israel's largest telecommunications provider. B Communications interest in Bezeq is directly held by SP2, which is a wholly-owned subsidiary directly held by our wholly-owned subsidiary, or SP1.
- GoldMind, an Internet media company in Israel, which operates websites in Israel.

D. Property, Plants and Equipment

Our and GoldMind's corporate headquarters are located in a 700 square meter leased facility in Petach Tikva, Israel. The term of the lease ends in September 2012, with an option to renew the lease for an additional four year period. The current annual rent for the premises is NIS 385,000 (approximately $102,000), linked to Israeli consumer price index. GoldMind also leases a smaller space in Rehovot, which is used by Nirshamim, for an aggregate annual rent of NIS 72,000 ($19,000).

Effective as of January 31, 2010, B Communications’ corporate headquarters are located in a 30 square meter facility in Ramat Gan, which it leases from Eurocom Communications at a token rent. The lease is for a period of three years, which may be extended each year for an additional one year period at the parties consent.

Prior to our sale of the legacy Communications Business, B Communications' corporate headquarters were located in a 7,000 square meter leased facility in Petach Tikva, Israel. The annual rent for the premises was NIS 5.5 million (approximately $1.5 million). B Communications also leased (i) an additional 1,300 square meters in Petach Tikva at an annual rent of NIS 1.1 million (approximately $291,000); (ii) an additional 4,700 square meters in Rishon Le'zion at an annual rent of NIS 2.9 million (approximately $768,000); (iii) an additional 800 square meters in Ramat-Gan at an annual rent of NIS 540,000 (approximately $143,000); and (iv) an additional 1,500 square meters in Petach-Tikva at an annual rent of NIS 0.8 million (approximately $237,000). All of the foregoing leases were assigned to Ampal in connection with the sale of our legacy Communications Business.

ITEM4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

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

Adoption of IFRS

Effective as of January 1, 2009, we adopted IFRS as issued by the IASB, replacing the previous reporting standard which was U.S. GAAP. Accordingly, beginning January 1, 2009, we prepare our consolidated financial data according to IFRS as issued by the IASB. Our transition date to IFRS under First Time Adoption of International Financial Reporting Standards is January 1, 2008. Comparative data of our financial statements has been restated to retrospectively reflect the adoption of IFRS. IFRS differs in certain respects from US GAAP. See Note 29 to our consolidated financial statements.

Overview

We are a leading communications and interactive media group and operate through our 012 Smile.Communications Ltd. and GoldMind Ltd. subsidiaries. We began providing Internet access services in 1996 and began offering broadband services in 2001 and traditional voice services in 2004. As part of our internal restructuring in 2006, we transferred our broadband and traditional voice services businesses, which we refer to in this annual report as the legacy Communications Business, to B Communications (formerly named) 012 Smile.Communications, and our media operations to GoldMind.

B Communications

Prior to January 2010, our principal subsidiary, B Communications (then named 012 Smile.Communications Ltd.), was a communications services provider in Israel that provided a wide range of broadband and traditional voice services.

On December 31, 2006, B Communications acquired one of our then principal competitors, 012 Golden Lines. Primarily as a result of this acquisition, B Communications became one of the major communication services providers in Israel as well as one of the three largest providers of broadband and international telephony services.

On October 25, 2009, B Communications entered into a share purchase agreement to acquire the controlling interest in Bezeq, Israel's largest telecommunications provider, from Ap.Sb.Ar. Holdings Ltd. (a consortium of Apax Partners, Saban Capital Group and Arkin Communications).

As part of its acquisition of the controlling interest in Bezeq, on November 16, 2009, B Communications entered into an agreement to sell its legacy Communications Business (excluding certain retained indebtedness and liabilities) to a wholly-owned subsidiary of Ampal (NASDAQ: AMPL) for NIS 1.2 billion (approximately $318 million). The sale of B Communications' legacy Communications Business to Ampal was completed on January 31, 2010, effective as of January 1, 2010.

As a result of B Communications' decision to sell its legacy Communications Business, as of October 25, 2009 we classified our legacy Communications Business as "held-for-sale." This resulted in our classification of the assets and liabilities held-for-sale in our financial statements as follows:

Assets classified as held-for-sale:

	December 31, 2009 NIS	Convenience translation into U.S. dollars US$
Cash and cash equivalents	934	247
Trade and other receivables	225,118	59,634
Long-term trade receivables	6,260	1,658
Property and equipment	158,916	42,097
Intangible assets	629,018	166,627
Employee benefits assets	13,078	3,464
Deferred expenses	326,950	86,610
	1,360,274	360,337

Liabilities classified as held-for-sale:

	December 31, 2009 NIS	Convenience translation into U.S. dollars US$
Trade and other payables	233,593	61,879
Deferred income	4,094	1,085
Related parties payables	2,422	641
Current maturities of long-term liabilities	149	40
Deferred tax liabilities	30,136	7,983
	270,394	71,628

On April 14, 2010, B Communications completed the acquisition of 30.44% of Bezeq's outstanding shares from Ap.Sb.Ar. Holdings Ltd. for an aggregate cash purchase price of approximately NIS 6.5 billion (approximately $1.72 billion) and became the controlling shareholder of Bezeq. We began consolidating Bezeq's financial results into our financial statements effective as of the closing of the acquisition and will begin to report the consolidated results in our 2010 second quarter earnings release.

Bezeq is the principal provider of communications services in Israel. Bezeq implements and provides a broad range of telecommunications operations and services, including domestic fixed-line, cellular and international communication services, multi-channel television, satellite broadcasts, Internet services, customer call centers, maintenance and development of communications infrastructures, provision of communications services to other communications providers, television and radio broadcasts, and supply and maintenance of equipment on customer premises (NEP services).

To facilitate the funding of the acquisition of the controlling interest in Bezeq, B communications entered into a series of long-term and short-term loans. See Item 5B “Operating and Financial Review and Prospects - Liquidity and Capital Resources.”

GoldMind

GoldMind is an Internet media company in Israel. As of December 31, 2009, GoldMind had 10 Internet properties in its network, consisting of three eCommerce websites and seven online content websites.

In March 2009, GoldMind sold its interest in Yahala, an Arabic language portal.

In October 2009, GoldMind acquired the remaining 48% interest in Hype, which is the owner and operator of TIPO, Israel's leading children's portal. GoldMind first acquired 50% of Hype's shares in August 2005 and acquired an additional 2% in September 2006.

Revenues

Communications Services Revenues

Prior to the sale of our legacy Communications Business to Ampal, we earned revenues primarily from the sale of broadband and traditional voice services, as well as from ancillary sales of broadband equipment and products, such as routers. Our customers used our services on "as needed" basis or entered into monthly or longer term arrangements. We billed our residential customers for our services on a monthly basis and were typically paid by credit card or bank debit order. Business customers were also billed on a monthly basis, and we generally received payment in full within ten to 70 days of invoice. We billed our cellular and carrier customers based on the number of minutes terminated or transferred by us, and the number of signaling messages sent and received. Our revenues were directly affected by the total number of our residential and business customers, the volume of traffic from our cellular and carrier customers and the rates we charged for our service.

Broadband services revenues primarily consisted of monthly subscriptions for broadband access to the Internet. We also earned revenues from offering a diverse suite of value-added services that were incremental to our core broadband Internet access services, such as e-mail, global remote access, wireless and wired home networking, various security services and virtual private network, or VPN, services. We earned revenues for these services based either on fixed prices for the service or a negotiated fee. We also provided specialized data services to bandwidth-intensive organizations and international carriers, allowing them to transmit electronic data from point to point or from point to multi-points. Our fee structure for these services depended on three main factors: capacity, distance and the type of technology used. Most specialized data services are provided under one to two year contracts.

Revenues from traditional voice services were generated from payments based on the number of minutes the service was used by subscribers and the destination of the calls. We also offered our traditional voice services in monthly packages. As of December 31, 2009, we had approximately one million customers registered in our database, of which approximately 358,000 customers used our voice services and were billed by us in 2009. In addition, we billed Israeli carriers for their customers' use of our services, which in the year ended December 31, 2009, were generated from over 617,000 lines. We provided termination services to approximately 90 international carriers for their calls originating outside of Israel. We also provided hubbing-traffic routing to our international carrier customers and roaming and signaling services for cellular operators.

We sold our legacy Business Communications products to a large number of residential, business and carrier customers. In the past three years, no customer accounted for more than 10.0% of our revenues.

Most of our revenues from our legacy Communications Business were denominated in NIS, and the remainder was principally denominated in U.S. dollars.

Media Revenues

We generate most of our media revenues from online sales of products and services, referred to as eCommerce. We also generate media revenues from the sale of advertising on content websites, referred to as online advertising.

Significant Costs and Expenses

Depreciation and Amortization. Prior to the sale of our legacy Communications Business, our depreciation and amortization expenses primarily related to our legacy Communications Business network equipment and capacity.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. We depreciate such assets based on the following annual percentages:

Network equipment and computers	15%-33%
Furniture and office equipment	6%-15%
Motor vehicles	15%
Leasehold improvements	shorter of the lease term or the useful lives of the asset (generally 10 years)

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Amortization of other intangible assets is recognized in profit or loss on a straight-line basis, (except customer relationship), over the estimated useful lives of the intangible assets from the date they are available for use. Customer relationships are amortized according to the economic benefit expected from those customers each period, which results in accelerated amortization during the early years of relationship. Goodwill and brand name assets having an indefinite useful life are not systematically amortized but are tested for impairment. The estimated useful lives for the current and comparative periods are as follows:

Licenses	20 years
Subscribers acquisition costs	1-3 years
Customers relationship	8-10 years
Capitalized software costs	5 years

The estimates regarding the amortization method and useful life are reassessed at each reporting date. We examine the useful life of an intangible asset that is not periodically amortized in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Salaries. Salaries include salary costs, social, statutory and employment benefits, and commissions for our employees, compensation and commissions paid to service providers and sales representatives, and share-based payments. Salaries are net of costs associated with certain technical staff, which costs are capitalized and included intangible assets.

General and Operating Expenses. General and operating expenses relating to our legacy Communications Business consisted primarily of costs of network services, facilities costs, costs of connecting local telephone lines into points of presence, international termination costs, the use of third party networks and leased lines and other regional network operations centers, telecommunication services expenses related to traditional voice services, agreements with several international carriers, building maintenance, services and maintenance by sub-contractors, vehicle maintenance expenses, royalties to the State of Israel and collection fees.

Finance Expense. Finance expense includes exchange rate differences arising from changes in the value of monetary assets and monetary liabilities stated in currencies other than the NIS, as well as interest charged on loans from banks. We also incurred interest expense in attributable to our two debenture offerings that took place in April 2005 and September 2007 and the debenture offering of our subsidiary B Communications that took place during the period of March to May 2007. In accordance with International Accounting Standard, or IAS, No. 32, the conversion feature of a convertible debenture linked to the consumer price index is classified as a derivative liability. After the initial recognition, the conversion feature (derivative liability) is measured at fair value with changes in fair value recognized immediately in profit or loss as financial income or expense. The debentures are measured after the initial recognition at amortized cost using the effective interest rate method.

Finance Income. Finance income includes exchange rate differences arising from changes in the value of monetary assets and monetary liabilities stated in currencies other than the NIS, as well as interest income on our cash and marketable securities.

Income Tax. Income tax expense is comprised of current and deferred tax. Current and deferred tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

As of December 31, 2009, we had tax loss carryforwards in the amount of NIS 201.4 million ($53.4 million) compared to NIS 130.1 as of December 31, 2008. Deferred taxes in respect of losses carried forward and not yet utilized, were not recognized in cases where future taxable income against which they can be utilized is not foreseen. Under existing tax laws, there is no time limit on utilizing tax losses or on utilizing deductible temporary differences. Deferred tax assets were not recognized in respect of these items since it is not anticipated that there will be taxable income in the future against which the tax benefits can be utilized. As a result, as at December 31, 2009, deferred taxes were not created on our carryforward losses and those of our subsidiaries in the aggregate amount of NIS 188,590 ($49,958) and NIS 77,521, respectively.

Critical Accounting Policies

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared in conformity with U.S. GAAP. We have identified the policies below as critical to the understanding of our financial statements. The application of these policies requires management to make estimates and assumptions that affect the valuation of assets and expenses during the reporting period. There can be no assurance that actual results will not differ from these estimates

Communication services revenue. Revenue from our legacy broadband and data services was earned on a fixed monthly fee basis for the provision of services. Our legacy broadband and data services included monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths, and also web and server hosting. These fees were recognized as services were provided. We recorded payments received in advance for services and services to be provided under contractual agreements, such as Internet broadband, as deferred income until such related services are provided. Our legacy Communications Business also offered value-added services including web faxing services, anti-spam and anti-virus protection. Generally, these enhanced features and data applications generate additional service revenues through monthly subscription fees or increased usage through utilization of the features and applications. Revenues from enhanced features and optional services were recognized when earned.

Our legacy Communications Business revenues from sales of equipment such as routers that were not contingent upon the delivery of additional products or services were recognized when products were delivered to and accepted by customers and all other revenue recognition criteria were met. In revenue arrangements including more than one deliverable, the arrangement consideration was allocated to each deliverable based on the fair value of the individual element. We determined the fair value of the individual elements based on prices at which the deliverable was regularly sold on a stand alone basis.

Media revenue. We generate revenues through the sale of advertising on our websites and the sale of products on the Internet (eCommerce). In all cases, revenue is recognized only when recovery of the consideration is probable, the associated costs and the amount of revenue can be measured reliably, and all other revenue recognition criteria are met. Advertising revenue is generated from several offerings including the display of rich media advertisements, the placement of text-based advertisements on our websites, placement of advertisements on search result pages targeted to users' search queries and content-branded channels with third parties. We recognize advertising revenue related to the display of advertisements on our portals as "impressions" are delivered

Allowance for Doubtful Accounts. Determining our allowance for doubtful accounts receivable requires significant estimates. With respect to our legacy Communications Business, due to the large number of customers that such business served it was impractical to review the creditworthiness of each of our customers, although a credit review was performed for carrier and large business customers. We consider a number of factors in determining the proper level of the allowance, including historical collection experience, economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of such customers. We evaluate our guidelines for providing for doubtful accounts on a frequent basis and examine the material parameters that might affect the assessment of our doubtful accounts, such as the tendency of a customer segment to make timely payments; rate of checks returned for insufficient payment and blocked bank accounts. Our policy has been consistent and has proven itself over the years. Therefore, based on our past experience we believe this policy is appropriate.

Property and equipment. Property and equipment items are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Depreciation. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Convertible debentures. The conversion feature in our convertible debentures linked to the Israeli consumer price index is measured at fair value through profit or loss using a binomial model for valuing convertible bonds. The valuation model takes into account estimates regarding, among other things, risk-free interest rate, our credit risk and expected volatility of our share price. Changes in these estimates may result in material changes to the fair value of the conversion feature and to the results of operations.

Israeli consumer price index-linked assets and liabilities that are not measured at fair value. The value of financial assets and liabilities linked to the Israeli consumer price index that are not measured at fair value, is remeasured every period in accordance with the actual increase in the Israeli consumer price index.

Goodwill and brand name assets. We acquired goodwill and brand name assets upon the acquisition of 012 Golden Lines on December 31, 2006. For acquisitions prior to January 1, 2008 (the date of our transition to IFRS), goodwill and brand name assets represent their deemed costs, which represent the amounts recorded under previous U.S. GAAP. Goodwill and brand name assets are measured at cost less accumulated impairment losses. Other intangible assets that are acquired by us and have infinite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization. Amortization is recognized in profit or loss on a straight-line basis (except customer relationships) over the estimated useful lives of the intangible assets other than goodwill and brand name assets from the date they are available for use. Customer relationships are amortized according to the economic benefit expected from those customers each period, which results in accelerated amortization during the early years of relationship. We examine the useful life of an intangible asset that is not periodically amortized in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Provisions. A provision is recognized if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When the value of time is material, the provision is measured at its present value.

Income tax expense. Income tax expense is comprised of current and deferred tax. We recognize current and deferred tax expense in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Our assessment considers that deferred tax is recognized using the statements of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Under our assessment deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Results of Operations

The following table sets forth our results of operations in NIS in thousands and as a percentage of revenues for the years ended December 31, 2009 and 2008 (IFRS):

	Year ended December 31,			
	2008		2009	
	NIS	%	NIS	%
Revenues:				
Broadband	546,986	46.9	608,503	49.0
Traditional voice	557,224	47.7	563,767	45.3
Media	63,117	5.4	70,818	5.7
Total revenues	1,167,327	100.0	1,243,088	100.0
Cost and expenses:				
Depreciation and amortization	117,503	10.1	98,642	7.9
Salaries	183,917	15.7	171,139	13.8
General and operating expenses	741,055	63.5	810,963	65.2
Other operating expenses	7,258	0.6	2,448	0.2
Other operating income	(12,839)	(1.1)	–	–
Total cost and expenses	1,036,894	88.8	1,083,192	87.1
Operating income	130,433	11.2	159,896	12.9
Finance expense	138,700	11.9	133,908	10.8
Finance income	(27,202)	(2.3)	(131,806)	(10.6)
Income before income tax	18,935	1.6	157,794	12.7
Income tax	22,747	1.9	57,784	4.7
Net income (loss) for the year	(3,812)	(0.3)	100,010	8.0

Income (loss) attributable to owners of the Company	(18,315)	(1.5)	62,239	5.0
Income (loss) attributable to non-controlling interest	14,503	1.2	37,771	3.0

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues. Revenues increased by 6.5% from NIS 1,167 million for the year ended December 31, 2008 to NIS 1,243 million ($329) for the year ended December 31, 2009. The increase was primarily due to the growth in the broadband segment of our legacy Communications Business, including our local telephony services. We expect that our revenues will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

Communications Revenues. Revenues from our legacy broadband services, including Internet access services and related value-added services, provided to residential and business customers, which represented 49.0% of our total revenues for the year ended December 31, 2009, increased by 11.2% from NIS 547.0 million for the year ended December 31, 2008 to NIS 608.5 million ($161.2 million) for the year ended December 31, 2009. The increase was primarily due to an increase in our local telephony services and the continued growth of our broadband customer base.

Traditional voice services revenues, which represented 45.3% of our total revenues for the year ended December 31, 2009 was NIS 563.8 million ($149.3 million) similar to NIS 557.2 million for the year ended December 31, 2008.

Media Revenues. Media revenues, which represented 5.7% of our total revenues for the year ended December 31, 2009, increased by 12.2% from NIS 63.1 million for the year ended December 31, 2008 to NIS 70.8 million ($18.8) for the year ended December 31, 2009. The increase in media revenues in 2009 was due to the increase in our eCommerce revenues.

Depreciation and Amortization. We recorded depreciation and amortization expenses of NIS 98.6 million ($26.1 million) for the year ended December 31, 2009 compared to NIS 117.5 million for the year ended December 31, 2008, a decrease of approximately 16.1%. The decrease was primarily due to the determination of our legacy Communication Business as "held-for-sale" in connection with the pending sale of such business, which was completed effective as of January 1, 2010, and we ceased to incur depreciation and amortization expenses with respect to our legacy Communications Business as of October 25, 2009. We expect that depreciation and amortization expenses will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

Salaries. Salaries decreased by 7.0% from NIS 183.9 million for the year ended December 31, 2008 to NIS 171.1 million ($45.3 million) for the year ended December 31, 2009. The decrease was primarily due to a reduction in our staff following the sale of our interest in MSN Israel Ltd. to Microsoft in 2008. We expect that salaries will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

General and Operating Expenses. Our general and operating expenses increased by 9.4% from NIS 741.1 million for the year ended December 31, 2008 to NIS 811.0 million ($214.8 million) for the year ended December 31, 2009. The increase was primarily due to the growth in revenues from the broadband segment of our legacy Communications Business, including our local telephony services. We expect that our general and operating expenses will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

Finance Expense. Finance expense decreased by 3.6% from NIS 138.7 million for the year ended December 31, 2008 to NIS 133.9 million ($35.5 million) for the year ended December 31, 2009. The decrease is primarily attributable to the increase in the market value of our marketable securities in 2009, for which we incurred losses in the 2008 period, and also to the profit from the sale of marketable securities in 2009 as compared to the losses from marketable securities that we incurred in the 2008 period. The decrease in our finance expense attributable to our marketable securities was offset in part by an increase in our finance expense in such period attributable to the change in the fair value of the conversion feature of our convertible debentures. We expect that our finance expense will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

Finance Income. Finance income increased by 385% from NIS 27.2 million for the year ended December 31, 2008 to NIS 131.8 million ($34.9 million) for the year ended December 31, 2009. The increase was primarily attributable to the increase in the market value of our marketable securities and also to the profit from the sale of marketable securities. We expect that our finance income will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

Income Tax. Income tax expenses increased from NIS 22.7 million for the year ended December 31, 2008 to NIS 57.8 million ($15.3 million) for the year ended December 31, 2009. The increase was primarily attributable to the increase in income from operations and also to the increase in financial income attributable to our marketable securities. We expect that our income tax expenses will increase significantly in 2010 as the operations of Bezeq will be consolidated into our financial statements beginning in the 2010 second quarter.

Net Income (Loss). We reported net income of NIS 100.0 million ($26.5 million) as compared to a net loss of NIS 3.8 million for the year ended December 31, 2008. Our income in 2009 is primarily attributable to the decrease in our finance expense, net from NIS 111.5 million for the year ended December 31, 2008 to NIS 2.1 million for the year ended December 31, 2009. Our loss in 2008 is primarily attributable to the high finance expense we recorded in the period.

Income Attributable to Non-Controlling Interest. Income attributable to non-controlling interest increased from NIS 14.5 million for the year ended December 31, 2008 to NIS 37.8 million ($10.0 million) for the year ended December 31, 2009. The increase was attributable to the increase in B Communications' net income.

Seasonality

Our legacy Communication Business experienced seasonal variations in the revenues and operating results of our traditional voice segment. Historically, our legacy Communication Business generated more revenues and profit in the third quarter of the fiscal year, which we believe is the result of extensive use of international telephony and roaming and signaling services during the summer vacation season, mainly in outgoing minutes and roaming services. Therefore, revenues from our traditional voice segment may continue to be higher in the third quarter, which in turn could result in our revenues being consistent or slightly down in the fourth quarter.

Bezeq does not experience significant seasonality. In general, Bezeq's revenues from its cellular mobile phone services are slightly higher in the second and third quarters of the fiscal year than the first and fourth quarters due to different usage patterns prevailing in the summer months compared to the winter months and the holiday season in Israel. In general, Bezeq's revenues from international communications, Internet and NEP services are affected in a minor way by the seasons and holidays. For example, voice services for the business sector decrease in August and during the Passover holiday; voice services for the private sector increase in the summer months and towards the end of the calendar year; sales of Internet services and NEP equipment usually increase in the fourth quarter; and Internet services for the business sector decrease in the summer months due to the closure of educational institutions.

Conditions in Israel

We and Bezeq are incorporated and based in the State of Israel and we and Bezeq derive substantially all of our revenues from markets within the State of Israel. See Item 3.D. "Key Information – Risk Factors – Risks Relating to Our Operations in Israel" for a description of governmental, economic, fiscal, monetary or political polices or factors that have materially affected or could materially affect our operations.

Impact of Currency Fluctuations and Inflation

The following table presents information about the rate of inflation in Israel, the rate of depreciation or appreciation of the NIS against the U.S. dollar, and the rate of inflation in Israel adjusted for the depreciation or appreciation:

Year ended December 31,	Israeli inflation rate %	NIS depreciation (appreciation)rate %	Israeli inflation adjusted for depreciation (appreciation) %
2005	2.4	6.8	(4.3)
2006	(0.1)	(8.2)	8.1

2007	3.4	(9.0)	12.4
2008	3.8	(1.1)	4.9
2009	3.9	(11.2)	15.1

The depreciation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS, unless those expenses or payables are linked to the dollar. This depreciation also has the effect of decreasing the dollar value of any asset which consists of NIS or receivables payable in NIS, unless the receivables are linked to the dollar. Conversely, any increase in the value of the NIS in relation to the dollar has the effect of increasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses. During the years 2007, 2008 and 2009, the NIS appreciated against the U.S. dollar, which resulted in a decrease in the NIS value of our U.S. dollar revenues and expenses.

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic depreciations, may have an impact on our profitability and period-to-period comparisons of our results. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations.

To manage this risk, from time to time, we use derivative financial instruments such as forward currency contracts to hedge certain of its risks associated with foreign currency fluctuations. These derivative financial instruments are carried at fair value.

For a discussion regarding Bezeq's exposure to currency fluctuations and inflation, see Item 11 "Quantitative and Qualitative Disclosures About Market Risks."

Effective Corporate Tax Rate

Israeli companies are generally subject to income tax on their taxable income. The applicable rate for 2009 was 26% and it was reduced to 25% in 2010. In July 2009, the Israeli Parliament passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting in 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%. See Item 10E. "Additional Information - Taxation - Israel Tax Considerations."

As of December 31, 2009, we had consolidated tax loss carryforwards of approximately NIS 201 million (approximately $53.2 million). Under current Israeli tax laws, tax loss carryforwards do not expire and may be offset against future taxable income.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union Community concluded a Free Trade Agreement in July 1975, which confers certain advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and specified non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as EFTA, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which included a redefinement of rules of origin and other improvements, including providing for Israel to become a member of the research and technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including China, India, Russia, Turkey and other nations in Eastern Europe and Asia.

Recently Issued Accounting Standards

In April 2009, the IASB adopted 15 amendments to various IFRS on a wide range of accounting issues. The amendments apply to periods beginning on or after January 1, 2010 and permit early adoption, subject to the specific conditions of each amendment. The following IFRS amendments may be relevant to us and are expected to have an effect on our consolidated financial statements:

Amendment to IAS, 39, Financial Instruments: Recognition and Measurement. This amendment clarifies that the exemption for business combinations in IAS 39 is restricted to forward contracts between an acquirer and a seller with respect to the sale or acquisition of a controlled entity, in a business combination at a future acquisition date. In addition, the term of the forward contract should not be longer than the period normally necessary for obtaining the approvals required for the transaction. The amendment is to be applied prospectively to all unexpired contracts for annual periods beginning on or after January 1, 2010. We are examining the effect that the amendment may have on our financial statements.

IFRS 9, Financial Instruments. This standard is the first part of a comprehensive project to replace IAS 39 Financial Instruments: Recognition and Measurement and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets. In accordance with IFRS 9, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with IFRS 9, an investment in a debt instrument will be measured at amortized cost if the objective of the entity’s business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other financial assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, IFRS 9 allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment. IFRS 9 removes financial liabilities from its scope.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. IFRS 9 is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods. IFRS 9 is expected to impact the classification and measurement of our financial assets, however we have not yet determined the extent of the impact.

Amendment to IAS 36, Impairment of Assets. In accordance with the amendment, for purposes of goodwill impairment testing the largest cash-generating unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria in Paragraph 12 of IFRS 8. The amendment is to be applied prospectively for annual periods beginning on or after

January 1, 2010. We are considering the implications of the standard and its impact, if any, on our company.

B. Liquidity and Capital Resources

Our Company

Historically we financed the construction of our network and funded our operations principally from cash flows from operations, short-term bank credit, revolving short-term bank loans and the proceeds of the initial public offering of our ordinary shares in August 1999.

In April 2005, we completed an offering of NIS 220 million ($58.3 million) of convertible debentures and warrants, in Israel, exclusively to Israeli residents. The debentures are to be repaid during the period April 2008 through April 2015, and are traded on the TASE. The interest rate of these debentures was 4%. The debentures are convertible into ordinary shares at a conversion price of NIS 50 ($13.2). As of December 31, 2009, NIS 104 million ($27.5 million) of the debentures had been converted into 2,597,599 ordinary shares. Due to the significant increase in our share price from the beginning of 2010 until June 30, 2010, NIS 75.7 million ($20.0 million) of such convertible debentures were converted into 1,505,542 of our ordinary shares during such period. On January 28, 2008, our Board of Directors authorized the repurchase of up to NIS 112 million ($29.7million) of the convertible debentures. As of December 31, 2009, we had repurchased approximately NIS 11 million of our convertible debentures under the program at a total purchase price of approximately NIS 11.6 million (approximately $3.07 million), or an average price of NIS 1.05 per bond. As of June 30, 2010, NIS 3.4 million (approximately $0.9 million) of such convertible debentures were outstanding. The warrants to purchase up to 2.5 million of our ordinary shares were exercised in full prior to October 15, 2007, their expiration date. Our proceeds from the exercise of such warrants totaled NIS 104 million ($27.5 million). The proceeds were used for general corporate purposes including working capital.

In September 2007, we completed an offering of Series B debentures that was made exclusively to Israeli residents. We raised a total of NIS 423.0 million ($112 million). The interest rate for the debentures, which are traded on the TASE, is 5%. In June 2010, Midroog Ltd., an Israeli financial rating company which is affiliated with Moody’s, issued the A3 rating to our Series B debentures. In November 2008, our Board of Directors authorized the repurchase of up to NIS 100 million (approximately $26.5 million) of our Series B debentures. The purchases were made from time to time by us or one of our wholly-owned subsidiaries in the open market on the TASE. We repurchased NIS 5,714,370 of the Series B Debentures under the program at a total purchase price of approximately NIS 4.4 million (approximately $1.2 million), or an average price of NIS 0.763 per bond.

On December 9, 2009, we completed a private placement of NIS 300 million ($79.5 million) of Series B debentures that was made exclusively to institutional investors in Israel. On December 24, 2009, we completed an additional private placement of NIS 100 million ($26.5) of Series B debentures that was made exclusively to institutional investors in Israel. Both of the December 2009 private placements were carried out as an increase to the Series B debentures that we issued in September 2007 and the terms of the additional Series B debentures issued in December 2009 are identical to those of the Series B debentures issued in September 2007.

On November 29, 2007 and July 7, 2008, our Board of Directors authorized the repurchase of up to an aggregate of NIS 140 million ($37.1 million) of our ordinary shares under two repurchase programs. As of December 31, 2009, we had repurchased 5,481,859 ordinary shares under the two programs at a total purchase price of NIS 140 million ($37.1 million), or an average price of NIS 25.3 (approximately $6.7) per share, and the two programs were completed. In March 2010, our Board of Directors authorized a third repurchase program, for the repurchase of up to an additional NIS 30 million (approximately $7.9 million) of our ordinary shares in the open market from time to time at prevailing market prices. On June 22, 2010, our Board of Directors authorized an increase in the third repurchase program by an additional NIS14 million ($3.7 million) of our ordinary shares, following which we may repurchase up to NIS 44 million (approximately $11.7 million) of our ordinary shares under the third program. As of June 30 2010, we had repurchased 330,756 ordinary shares under the third program at a total purchase price of approximately NIS 30 million ($7.9million), or an average price of NIS 90.7 ($24.0) per share.

As of December 31, 2008 and 2009, we had cash and cash equivalents as well as marketable securities of NIS 580.8 million and NIS 1.5 billion ($384 million), respectively, and we had working capital of NIS 123.3 million at December 31, 2008 and NIS 1.83 billion ($485 million) at December 31, 2009.

As of December 31, 2009, we had borrowings of NIS 463 million ($122.6 million) under our lines of credit with five banking institutions in Israel, and the unutilized portion of our lines of credit was NIS 27 million ($7.2 million). The lines of credit provide for interest at annual rates ranging from 2.15% to 3.4% and an average rate of 2.5%. In connection with such credit lines, we agreed not to pledge any of our assets to any person. In addition, pursuant to the terms of these credit lines, we are required to maintain our ownership position in our subsidiary B Communications above 51%. These credit lines do not have a specified maturity date and they may be called by each bank at any time.

The following table summarizes our bank debt (not including the debt of B Communications) as of December 31, 2008 and 2009:

	At December 31,	
	2008	2009
	(NIS in thousands)	
Short-term:		
Credit	34,852	1,540
Short-term bank loans	7,886	461,295
Current maturities of long-term loans	8,441	–
Total short-term debt	51,179	462,835
Long-term:		
Long-term loans maturities	617	–
Total long-term debt	617	–
Total bank debt	51,796	462,835

We made capital expenditures for property equipment , intangible assets and deferred expenses of NIS 93.9 million in the year ended December 31, 2008 and NIS 158.6 ($42.0) in the year ended December 31, 2009.

B Communications

During the period March to May 2007, B Communications issued a total of approximately NIS 425.0 million ($112.6 million) of non-convertible Series A debentures exclusively to institutional investors in Israel at par value. In November 2008, the Board of Directors of B Communications authorized the repurchase of up to NIS 100 million (approximately $26.5 million) of the Series A debentures. The purchases may be made from time to time by B Communications or one of its wholly-owned subsidiaries in the open market on the TASE. The timing and amount of any purchases are determined by B Communications management based on its evaluation of market conditions and other factors. As of December 31, 2009, B Communications had repurchased NIS 16 million of the Series A debentures under the program at a total purchase price of approximately NIS15.9 million (approximately $4.2 million), or an average price of NIS 98.5 ($26.1) per bond. As of December 31, 2009, NIS 408,848,857 of Series A debentures was outstanding.

On March 31, 2007, in connection with B Communications' acquisition of 012 Golden Lines, we provided B Communications with a long-term loan of NIS 100.6 million ($26.6 million), bearing the prime interest rate published from time to time by the Bank of Israel. As of December 31, 2009, B Communications had an outstanding balance payable to us of NIS 326 million ($86.4 million). On March 24, 2010, NIS 302 million ($80 million) of the loan was repaid as part of the proceeds from our participation in B Communications' March 2010 private placement, discussed below. On May 12, 2010, B Communications repaid the remaining outstanding balance of NIS 31.5 million ($6.4 million).

In November 2009, we provided B Communications a NIS 217.5 million ($57.5 million) loan, bearing interest equal to the yield on Israel Government bonds with an average maturity that is closest to the maturity date of the loan, as such yield is reflected in the average closing price of Israel Government bonds for the seven trade days preceding the grant of the loan. On March 24, 2010, the loan was fully repaid as part of the proceeds from our participation in B Communications' March 2010 private placement, discussed below.

On March 24, 2010, B Communications completed a private placement of 3,478,000 of its ordinary shares to Israeli institutional investors and us. The offering price of NIS 116 (approximately $3.07) per ordinary share was determined by means of a tender by third party, institutional investors. Based on our irrevocable undertaking to subscribe for approximately 75% of the offering on the same terms and conditions negotiated with the third-party institutional investors, we purchased 2,599,310 ordinary shares of B Communications, which represent approximately 75% of the shares sold in the private placement. The private placement proceeds from us were paid by way of B Communications' partial repayment of the loan we provided to it in March 2007 and its full repayment of the loan we provided to it in October 2009, as described above.

Bezeq Transaction

On October 25, 2009, B Communications entered into a share purchase agreement to acquire the controlling interest in Bezeq, Israel's largest telecommunications provider, from Ap.Sb.Ar. Holdings Ltd. (a consortium of Apax Partners, Saban Capital Group and Arkin Communications).

As part of its acquisition of the controlling interest in Bezeq, on November 16, 2009, B Communications entered into an agreement to sell its legacy Communications Business (excluding certain retained indebtedness and liabilities) to a wholly-owned subsidiary of Ampal (NASDAQ: AMPL) for NIS 1.2 billion (approximately $318 million). The sale of B Communications' legacy Communications Business to Ampal was completed on January 31, 2010, effective as of January 1, 2010.

On April 14, 2010, B Communications completed the acquisition of 30.44% of Bezeq's outstanding shares from Ap.Sb.Ar. Holdings Ltd. for an aggregate cash purchase price of approximately NIS 6.5 billion (approximately $1.72 billion) and became the controlling shareholder of Bezeq. The acquisition was funded with loans (described below) and the proceeds that B Communications received from the sale of its legacy Communications Business.

Financing for the Acquisition of the Bezeq Shares

B Communications obtained the following loans to facilitate the funding of its acquisition of the controlling interest in Bezeq:

- On the closing date of the acquisition by B Communications of the Bezeq interest, B Communications' indirect fully owned-subsidiary SP2, which holds the Bezeq interest, received a bank loan from certain banking and financial institutions led by Bank Hapoalim Ltd., or Bank Hapoalim, in a total principal amount of NIS 4.6 billion (approximately $1.24 billion). The loan is divided into four tranches, as follows:

(i) Credit A - a "bullet" floating rate loan, in the amount of NIS 700 million (approximately $185.4 million); with principal and interest that was payable on November 30, 2010. Credit A is indexed to Bank Hapoalim's prime interest rate, plus a margin of 2%. Bank Hapoalim Prime on the date of the closing was equal to 1.62%. B Communications repaid this loan in full following its receipt of the dividend from Bezeq on May 3, 2010.

(ii) Credit B –This tranche is divided into two parts. The first part, in the amount of NIS 1.1 billion (approximately $0.3 billion), is a floating loan indexed to the Bank Hapoalim prime interest rate; and the second part, in the amount of NIS 900 million (approximately $238.4 million), is a fixed rate loan, linked to the Israeli consumer price index. Both parts of Credit B are payable in 13 equal semi-annual installments of both principal and interest, with the first payments due on November 30, 2010. The interest rate on the first part of Credit B is 4.58% and the interest rate on the second part of Credit B is 4.35%.

(iii) Credit C – a "bullet" loan, in the principal amount of NIS 700 million (approximately $185.4 million), is a floating rate loan, indexed to the Bank Hapoalim prime interest rate, at an interest rate of 4.73% . The principal of Credit C will be paid in one payment on November 30, 2016; and the interest will be paid in 13 semi-annual installments, the first of which is due on November 30, 2010.

(iv) Credit D - two "bullet" loans, the principal of which will be paid in one payment on May 30, 2017 and the interest will be paid in 13 semi-annual installments, the first of which is due on November 30, 2010. The first loan of Credit D is in the principal amount of NIS 800 million (approximately $212 million) and is a floating rate loan, indexed to the Bank Hapoalim prime interest rate, at a rate of 4.75%. The second loan is in the principal amount of NIS 400 million (approximately $106 million) and is a fixed rate loan, linked to the Israeli consumer price index, at a rate of 5.4%.

In addition, SP2 will pay the lenders certain fees, expenses and cost increases. SP2 also issued phantom stock options to the banks, under which they received option units, which reflect, in the aggregate, 2% of Bezeq's share equity (subject to adjustments in certain cases). The "base price" of each unit is NIS 8.62. However, the total amount that SP2 will pay the banks in the aggregate is limited to NIS 125 million (NIS 2.3367 per option unit). The option units are exercisable by the lenders until May 30, 2017, but are due for payment in certain installments. The payments under the option agreements will be made from dividends that SP2 will receive from Bezeq, which in accordance with the loan agreement SP2 may not withdraw such amounts from its account. If no amounts are available for this purpose, the payments will be delayed until equitable sums are available, but not later then May 30, 2017.

SP2's undertakings and limitations under the loan agreement include, among other things: (a) the obligation to provide the lenders with certain financial information; (b) limitations as to the use of amounts which will be received from Bezeq and the ability to withdraw and distribute them to SP2's shareholders; and (c) an undertaking to object to certain changes in Bezeq's incorporation documents if the lenders find such changes would prejudice their rights. In certain situations, payments from Bezeq must be used for early repayment of the loan or may not be withdrawn by SP2 to its parent company.

Upon the occurrence of certain events of default, but subject to certain conditions, the lenders are entitled to call the loans for immediate repayment, subject to certain procedures and remedy periods set forth in agreement, including upon the following events:

o The failure of: (i) Bezeq to maintain minimum shareholders equity and minimum ratio of shareholder equity; (ii) Bezeq to exceed certain thresholds relating to the ratio of financial debt to EBITDA; and (iii) B Communications' wholly-owned subsidiary that directly holds the Bezeq interest to maintain a minimum ratio of debt to EBITDA and a debt service coverage ratio.

o Material breach of an undertaking or representation; certain restructuring, insolvency or debt restructuring events of SP2 or Bezeq; any material change in the nature of Bezeq's activities; certain changes in control of SP2 or dilution of SP2's holdings in Bezeq or if SP2 ceases to control Bezeq; if Bezeq's general license is adversely modified; if any of the permits or approvals issued in connection with B Communications' acquisition of controlling interest in Bezeq ceases to be in force or was amended; and if Bezeq or certain subsidiaries of Bezeq fail to make certain payments when due.

The Bezeq shares that were purchased by SP2 on the closing date, and all of SP2's other rights and assets (except additional shares of Bezeq that it may acquire in the future) have been pledged to the lenders as security of SP2's obligations under the loan agreement. In addition, B Communications' wholly-owned subsidiary SP1, the direct parent company of SP2, has pledged to the lenders the entire equity it holds in SP2 and the debt owed to it by SP2 (other than the amounts that SP2 will pay SP1 according to the terms and the conditions of the loan agreement).

- On February 19, 2010, B Communications' wholly-owned subsidiary SP1 entered into a loan agreement with certain entities from the Migdal Insurance and Financial Holdings Ltd. or Migdal, group. According to the Migdal loan agreement, on the closing date of B Communications' acquisition of our Bezeq interest, SP1 was provided a loan of NIS 500 million. The loan will bear annual interest at a rate of 6.81%, linked to the Israeli consumer price index. In addition, a special interest payment is payable on the date of the final repayment of the loan in order to ensure a certain internal rate of return, or IRR, of the loan principal (without linkage to the Israeli consumer price index), which will be calculated according to a formula that takes into account amounts that SP1 may pay due to early repayment at Migdal's demand and amounts with respect to which Migdal may waive its right to demand early repayment. However, in any event the abovementioned IRR will not exceed the IRR which derives from a fixed interest of 6.95%.

The interest is payable semi-annually, and the principal is payable in one payment, on the earlier of: (i) March 31, 2017; (ii) 60 days prior to the agreed repayment date of the entire amount of Credit D under the SP2 loan described above.

The Migdal loan is secured by a first ranking pledge on SP1's rights in the bank account into which all payments from SP2 are made, except for certain defined expenses, referred to as the Pledged Bank Account. SP1 undertook to maintain in the Pledged Bank Account minimum funds of NIS 22.5 million (linked to the Israeli consumer price index). The Migdal facility agreement includes limitations on distributions and payments from the Pledged Bank Account (including conditions as to total debt to EBITDA ratios that relate to SP1).

The Migdal loan agreement contains certain undertakings and covenants, including, among others, (i) certain undertakings for SP1 and its direct and indirect controlling shareholders to maintain (indirect) control in Bezeq, (ii) limitations on amendments to the SP2 loan described above; and (iii) an undertaking to comply with the terms of the regulatory approvals granted with respect to purchase of control in Bezeq.

Bezeq's Dividend Policy

On August 4, 2009, Bezeq's board of directors adopted a dividend distribution policy according to which Bezeq will distribute to its shareholders, semiannually, a dividend at a rate of 100% of its semiannual profit (after tax) semiannual net income after minority share, in accordance with Bezeq's consolidated financial statements. The implementation of the dividend policy is subject to the provisions of applicable law, including the dividend distribution tests set forth in the Israeli Companies Law, as well as the estimate of Bezeq's board of directors regarding Bezeq's ability to meet its existing and anticipated liabilities from time to time, while taking into consideration Bezeq's anticipated cash flow, operations and liabilities, cash reserves, its plans and its condition from time to time. Each dividend distribution is subject to the approval of Bezeq's shareholders, pursuant to Bezeq's articles of association. On April 8, 2010, Bezeq's shareholders approved the distribution of a dividend of NIS 0.9170679 (approximately $0.25) per share (a total of approximately NIS 2.453 billion or $656 million) to Bezeq shareholders of record on April 15, 2010, which was paid on May 3, 2010. B Communications received NIS 750 million (approximately $199 million) in connection with such dividend distribution.

We expect that the dividends that we will receive from our controlling interest in Bezeq, along with our existing cash and cash equivalents and marketable securities, will be sufficient to fund our operations for at least the next 12 months. We believe that Bezeq and its subsidiaries will be able to funds their operations in the next 12 months with the cash flows from their operating activities.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year Ended December 31,	
	2008	2009
	(NIS in thousands)	
Net income	(3,812)	100,010
Other adjustments for non-cash items	253,716	151,857
Net changes in assets and liabilities	(42,068)	(14,584)
Net cash provided by operating activities	207,836	237,283
Net cash (used in) provided by investing activities	(482,076)	407,666
Net cash (used in) provided by financing activities	(221,561)	613,866
Effect of exchange rate changes	(20,035)	5,789
Net increase (decrease) in cash and cash equivalents	(515,836)	1,264,604

Net cash provided by operating activities was NIS 207.8 million and NIS 237.2 million ($62.8 million) for the years ended December 31, 2008 and 2009, respectively. The increase in net cash provided by operating activities in 2009 compared to 2008 was primarily due to the increase in our net income in the 2009 period.

Net cash provided by investing activities was NIS 407.7 million ($108.0 million) for the year ended December 31, 2009 compared to net cash used in investing activities of NIS 482.1 ($127.7 million) for the year ended December 31, 2008. In 2008, most of the cash used in investing activities was due to our investments in marketable securities. Cash provided by investing activities in the year ended December 31, 2009 was due to the profit from the sale of marketable securities in 2009.

Net cash used in financing activities was NIS 221.6 million for the year ended December 31, 2008 compared to net cash provided by financing activities of NIS 613.9 million ($162.6 million) for the year ended December 31, 2009. Cash used in financing activities in 2008 included changes in short-term bank debt, payment of loans, repurchase of outstanding debentures and share buy back activities. In 2008, most of the cash used in financing activities was for the repurchase of NIS 31.4 million of our debentures and NIS 100.1 million was used in our share buy back activities. Cash provided by financing activities in 2009 was from a private placement of NIS 399 million ($105.6 million) of our Series B debentures in December 2009, which was offset in part by our payment of principal and interest on our debentures in the aggregate amount of NIS 69.1 million ($18.3 million) and NIS 33.3 million ($8.8 million) used in our share buy back activities.

C. Research and Development, Patents and Licenses

We have not sponsored any material research and development during the last three fiscal years.

D. Trend Information

We experienced growth in our legacy Communications Business during the two fiscal years prior to its sale effective as of January 1, 2010. Our revenues from our legacy Communications Business increased from approximately NIS 1.1 billion for the year ended December 31, 2008 to approximately NIS 1.175 billion ($311 million) for the year ended December 31, 2009. The increase was primarily due to the growth in the broadband segment of our legacy Communications Business, including our local telephony services.

Bezeq experienced growth in its revenues in the last two fiscal years. Bezeq's revenues increased from approximately NIS 11.1 billion for the year ended December 31, 2008 to approximately NIS 11.5 billion for the year ended December 31, 2009, primarily due to an increase in revenues from its cellular segment. Financial information regarding Bezeq's operations during the last three fiscal years is set forth below. Bezeq's financial statements are prepared in accordance with IFRS.

Financial Information Regarding Bezeq's Operations

Year ended December 31, 2009

	Domestic fixed-line communications	Cellular	International communications, internet services and NEP	Multi-channel television	Other	Adjustments to consolidated *	Consolidated
				(NIS in millions)			
Total revenue:							
From externals	5,039	5,130	1,273	1,529	54	(1,529)	11,496
From other areas of operations in the Bezeq group	264	246	45	1	20	(553)	23
Total	5,303	5,376	1,318	1,530	74	(2,082)	11,519
Total attributed costs							
Variable costs attributed to the area of operation	1,774	2,153	635	498	47		
Fixed costs attributed to the area of operation*	2,006	2,033	422	784	23		
Total costs	3,780	4,186	1,057	1,282	70	(1,828)	8,547
Costs not constituting revenue from another area of operation	3,543						