INTERNET GOLD GOLDEN LINES LTD
Form 6-K
November 19, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

F O R M 6-K

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

For the month of November 2007

INTERNET GOLD-GOLDEN LINES LTD.

(Name of Registrant)

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

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

Form 20-F x Form 40-F o

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

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

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

Yes o No x

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

Internet Gold-Golden Lines Ltd.

6-K Items

1. Internet Gold-Golden Lines Ltd. Prospectus for the Issuance of Series B Debentures on the Tel Aviv Stock Exchange.

ITEM 1

Internet Gold Golden Lines Ltd.

(the Company)

Prospectus for the issuance of

423,000,000 registered Debentures (Series B), NIS 1 par value each, at a minimum price of 97% of their par value (i.e., 97 agorot per NIS 1 par value of Debentures (Series B)), payable (the principal) in 6 equal annual installments on the 1st day of November of each of the years 2010 through 2015, inclusive, bearing 5% interest per annum and indexed (principal and interest) to the Consumer Price Index published with respect to August 2007. Interest on the outstanding balance of the Debentures (Series B) shall be paid in equal annual installments on the 1st day of November of each of the years 2008 through 2015, with respect to the period ended on the last day before such payment date.

The Public Offering

423,000,000 Debentures (Series B) are offered to the public in 423,000 units (the Units) in a tender for the Unit price. The Units shall be offered at a price not less than NIS 970 per Unit (Minimum Price).

Each Unit shall include:

1,000 Debentures (Series B) at a Minimum Price of 97% of their par value.	NIS 970
Total Minimum Price per Unit	NIS 970

The subscription list for the Units offered to the public will open on September 25 at 4:30 p.m. and will close at 5:30 p.m. the same day.

Classified investors have undertaken to subscribe for 360,700 Units, constituting approximately 85.27% of the Units offered to the public. For further details see Section 9.8 of the Prospectus.

The Company shall not issue a complementary notice (hoda a mashlima), as defined in the Securities Regulations (Complementary Notice and Draft Prospectus) 2007, regarding any amendment to the offered securities, including the price and number of Debentures (Series B) offered, as compared to the terms set forth in the Prospectus. The Company may make an additional issuance to classified investors and/or to the general public, in accordance with the Securities Regulations (Method of Public Offering) 2007.

The debentures (Series B) are not secured by any collateral. The Debentures shall be repayable immediately only upon the events detailed in Section 10.2.5 of the Prospectus. The Company reserves the right to subject its assets to liens of any rank and will not have to obtain the approval of the Trustee or holders of Debentures for this purpose.
This Prospectus was prepared in accordance with the Exemption from Securities Regulations (Details, Structure and Form of the Prospectus) 1969, granted to the Company by the Israel Securities Authority under Section 35xxix of the Securities Law, 1968 (the Securities Law). For further details regarding the exemption that the Company received in connection with this Prospectus, see Chapter 1 thereof.

The Company s current reports are in accordance with U.S. law and in the English language, in accordance with the rules of dual listing set forth in Chapter 3 of the Securities Law and the regulations promulgated thereunder.

The public offering under this Prospectus is in Israel and for Israeli residents only, and is not intended for U.S. persons. Any person purchasing securities under this Prospectus shall be deemed to have represented that he was not in the United States at the time that he subscribed for the securities offered under this prospectus. No person is authorized to make efforts to sell the securities offered hereunder in the United States. This Prospectus, the offering of securities thereunder, the securities and their purchase and any matter arising from and/or associated with the Prospectus, the offering of securities thereunder, the securities and their purchase, shall be subject to the laws of the State of Israel only. All disputes arising from and/or connected with the matters listed above shall be submitted to the exclusive jurisdiction of the competent courts in the State of Israel.

This Prospectus was not filed with the U.S. Securities Exchange Commission. The securities offered hereunder have not been registered under the United States Securities Act and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act or unless an exemption from such registration is available under the U.S. Securities Act.

Risk factors that might have an adverse effect on the Company s results:

The Company: (1) The significant growth that the Company has been experiencing is drawing heavily on the Company s resources. The Company may fail to implement its growth strategy, in a way that might adversely affect its ability to continue growing or maintain its revenues and profit; (2) The Company does not expect to maintain the profit growth ratio that it has experienced recently. In such case, the Company s ability to satisfy its obligations toward Debenture holders might be impaired; (3) If the Company fails to develop its brands, it may be unable to attract a sufficient number of clients to maintain or increase its market share. In such event, the Company s ability to satisfy its obligations toward the Debenture holders might be impaired; (4) The Company is dependent on its senior management staff, and loss of key persons might have an adverse effect on the future of the Company; (5) The Company may be unable to protect its intellectual property or to defend against infringement claims; (6) The Company may be subject to intellectual property infringement claims, defending against which would involve material costs. Such claims may lead to material damage payments and cause limitations to be imposed on the Company s ability to provide certain content or use certain technologies in the future;

The Company s Communication Division: (7) The Company may not succeed in the merger of the operations of Golden Lines Ltd. and Smile.Communication Ltd. (012 Smile.Communication) and might, in connection with the merger, incur material expenses; (8) Significant growth in 012 Smile.Communication has been drawing on the Company s resources. Failure to implement the Company s growth strategy might adversely affect its continued ability to grow or maintain its revenues and profit; (9) Regulatory changes might have an adverse effect on the business of 012 Smile.Communication; (10) Existing regulatory restrictions imposed on Bezeq the Israel Telecommunication Corporation Ltd., might be amended, leading to increased competition and a cut in the revenues of 012 Smile.Communication; (11) 012 Smile.Communication will need to obtain additional licenses, including a license to provide WiMAX, on a commercial basis. If 012 Smile.Communication is unable to obtain such new licenses, this might have an adverse effect on the Company s growth possibilities and its business results; (12) 012 Smile.Communication operates in the telecommunication industry, in which the competition is intense and which already involves many existing and potential players with large resources and big clients, and a regulator that encourages entry into the market, all of which are liable to intensify the already-fierce price competition, curb the Company s ability to maintain or increase its market share and impair its ability to satisfy its obligations with respect to the Debentures; (13) Any reduction in the demand for hubbing services by any one or more of 012 Smile.Communication s significant hubbing clients might cause a material decline in the Company s revenues from hubbing; (14) 012 Smile.Communication operates in a market that has high user penetration rates, which might lead to a price reduction and increased marketing efforts in order to retain existing customers and attract new ones; (15) The Company might be exposed to penalties or claims with respect to violation of the Israeli communication law or the Company s permits and licenses, in connection with the number portability requirement; (16) 012 Smile.Communication s VOB services are not similar to traditional telephony services, and may not be adopted by mainstream clientele; (17) 012 Smile.Communication s activity depends on its ability to expand and upgrade its grid and integrate new technology and equipment. Accordingly, 012 Smile.Communication is exposed to an increasing risk of system failure, and difficulties in providing clients with new features; (18) The market of broadband data services and traditional voice services are subject to rapid technology changes that might impair 012 Smile.Communication s competitiveness; (19) 012 Smile.Communication may be unable to implement its WiMAX services, which might have an adverse effect on the Company s growth strategy; (20) In the course of the transfer to 012 telephony services, in accordance with the regulatory requirements, 012 Smile.Communication may be unable to retain those of its current customers that previously used 015 long-distance calling services; (21) 012 Smile.Communication is dependant on certain suppliers; in the event that its relationship with such suppliers is terminated, 012 Smile.Communication may be unable to find an alternative replacement at reasonable commercial terms; (22) 012 Smile.Communication is exposed to a risk in connection with its grid infrastructure and is dependent on the services of external suppliers. In the event that the level of service received by 012 Smile.Communication from its external suppliers declines, 012 Smile.Communication might be unable to retain the quality and scope of its services, and this might cause a decreased in its revenues and have an adverse effect on its operations; (23) The products and services of 012 Smile.Communication might become outdated, and 012 Smile.Communication may not be able to develop competitive products or services within a reasonable time or at all; this might have an adverse effect on its competitiveness and on its financial results; (24) 012 Smile.Communication s systems and operations are sensitive to various damages and disturbances; this exposes the Company to material risks, claims or losses, and has an adverse effect on its goodwill; (25) 012 Smile.Communication might be exposed to material liability in connection with the broadband and traditional voice services;

The Company s Media Division: (26) A substantial portion of the profit of Smile.Media Ltd. (Smile.Media) is derived from the MSN Israel portal (the Portal), which is jointly owned by Smile.Media and Microsoft. Termination of the relationship with Microsoft in connection the Portal might have a material adverse effect on the business of Smile.Media; (27) Smile.Media is facing significant competition with providers of content, e-commerce, search engines, e-advertisement and Internet services; (28) Smile.Media s results on operations might be materially unstable, and this might cause instability in the price of the Company s shares and impair its ability to satisfy its obligations toward holders of Debentures (Series B); (29) Most of the revenues of Smile.Media derive from online advertising. Therefore, any reduction in the expenditure by existing or potential advertisers, or the loss of such advertisers, might cause a decrease in Smile.Media s revenues and results; (30) Strategic acquisitions and investments might cause operational difficulties and unexpected liabilities; (31) If Smile.Media is unable to develop and integrate and implement new products and services or develop, obtain licenses for or purchase the necessary content at reasonable cost, its competitive position and ability to retain and attract users to its websites might be impaired; (32) Smile.Media might be exposed to material liabilities as a result of its Internet operations; (33) Regulatory changes or user concerns in connection with privacy and data protection issues might have an adverse effect on the operations of Smile.Media;

The Debentures (Series B): (34) The Company has a substantial outstanding debt. The Company s obligations for payment of the principal and interest on such debt might limit the Company s future operations and its ability to satisfy its obligations in connection with the Debentures (Series B). In addition to the Company s leveraging to date, the Company may have to assume additional material liabilities, which might intensify the risk described above; (35) The Debentures (Series B) shall be subordinate to the Company s other secured future indebtedness and other secured liabilities; (36) The offering under this Prospectus is the first public offering of the Debentures and there is no current market for this class of securities of the Company, nor is there any assurance that a liquid market for these Debentures will develop;

The Company s Activity in Israel: (37) The Company conducts its business in Israel, and its business is focused on the Israeli public; therefore, the Company s results might be adversely affected by geopolitical and economic instability in Israel; (38) Geopolitical or economic instability in Israel might disrupt the Company s operations and have an adverse effect on its sales; (39) The Company s business might be adversely affected by changes in the exchange rates of the shekel; (40) The Company s results might be adversely affected if inflation in Israel is not balanced in time by a devaluation of the shekel against foreign currencies to which the Company is exposed, and by protection of the value of the currency and changes in the Israeli Consumer Price Index; (41) The Company s operations might be limited in case of a national emergency situation; (42) The Company s operations might be adversely affected by its workers obligations to do reserve military duty.
Registration of the Debentures (Series B) is contingent upon a minimum spread of the Debentures (Series B) and a minimum value of holdings by the public, and on satisfaction of other conditions for registration, in accordance with TASE instructions, all as detailed in Chapter 9 of the Prospectus.

The Company has certain transactions with related parties. For further details, see Item 7 in the Company s annual report for 2006, as filed on Form 20-F (Major Shareholders and Related Party Transactions).

The Company s Articles of Association include provisions relating to Sections 50(a), 85, 87(a)(4) and 259 of the Companies Law, 1999.

The Debentures (Series B) were rated A1 by Midroog Ltd. For further details about this rating and the considerations underlying it, see Chapter 10 of the Prospectus.

The public offering under this Prospectus is underwritten (see Chapter 15 of the Prospectus). The aggregate underwriting, management and distribution commissions and all other expenses associated with this offering, including the commission to classified investors, is estimated at approximately 2.44% of the immediate gross proceeds. For details regarding the Company s covenant to indemnify the underwriters, see Section 15.4 of the Prospectus.

Lead Underwriters: Apex Underwriting & Issue Management Ltd., Poalim IBI Ltd., Menorah Mivtachim Underwriting & Management Ltd., Africa Israel Issues Ltd., Leader Issuances (1993) Ltd., Analyst Underwriting and Issues Ltd. and Rossario Capital Ltd.

Consultants: Eurocom Capital Underwriting Ltd. (a company controlled by the Company s controlling shareholder).

Trustee for Debentures (Series B): Leumi Trust Company Ltd.

The Prospectus can be reviewed on the website of the Israel Securities Authority, at www.magna.isa.gov.il, and on the website of the TASE, at http://maya.tase.co.il.

Prospectus date: September 25, 2007.

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

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Chapter 1: General; Permits

1.1 Permits

The Company has obtained all of the permits, authorizations and licenses required by law in order to offer and issue the securities and publish this Prospectus.

The approval of the Securities Authority for publication of this Prospectus does not constitute validation of the details contained herein or of their correctness or comprehensiveness, and shall not be construed as statement of an opinion regarding the quality of the securities offered hereunder.

The Tel Aviv Stock Exchange Ltd. (**TASE**) has granted its approval to register the Debentures (Series B) offered under this prospectus.

Such approval by the TASE does not constitute validation of the details contained herein or of their correctness or comprehensiveness, and shall not be construed as statement of an opinion regarding the Company or the quality of the securities offered hereunder or the price at which they are being offered.

Registration of the Debentures (Series B) offered hereunder is contingent upon satisfaction of the conditions for registration, in accordance with TASE instructions, including a minimum spread of the Debentures (Series B) and a minimum value of holdings by the public, all as detailed in Section 9.4.2 of the prospectus.

The public offering under this prospectus is in Israel and for Israeli residents only, and is not intended for residents of the United States. Any person purchasing securities under this prospectus shall be deemed to have represented that he was not in the USA at the time that he subscribed for the securities offered under this prospectus. No person is authorized to make efforts to sell the securities offered hereunder in the United States. This prospectus, the offering of securities hereunder, the securities and their purchase any matter arising from and/or associated with the prospectus, the offering of securities hereunder, the securities and their purchase, shall be subject to the laws of the State of Israel only. All disputes arising from and/or connected with the matters listed above shall be submitted to the exclusive jurisdiction of the competent courts in the State of Israel.

This prospectus was not filed with the U.S. Securities Exchange Commission. The securities offered hereunder have not been registered under the United States Securities Act of 1933 (the U.S. Securities Act) and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act or unless an exemption from such registration is available under the U.S. Securities Act. The Debentures (Series B) shall only be registered in Israel, all in accordance with the Category 1 exemption under Rule 903(b)(1)(ii)(A) of Regulation S of the Securities Act. The Debentures (Series B) can be registered and resold on the TASE and are not subject to any lockup or other restriction.

A decision to purchase the securities offered under this prospectus should be based solely on the information contained herein. The Company has not authorized any other person and/or entity to provide any information other than that disclosed herein. The prospectus does not constitute a securities offering in any jurisdiction other than Israel.

1.2 Exemption by the Israel Securities Authority

1.2.1 Section 35Y of the Securities Law, 1968 (the: **Securities Law**) provides, among other things, that the Israel Securities Authority may grant full or partial exemptions with regard to the details included in a prospectus and the structure and form of a prospectus, to a corporation organized in Israel that is offering securities to the public, if the securities of such corporation are listed on a foreign stock exchange.

1.2.2 The Israel Securities Authority has exempted the Company, with respect to this prospectus, from the Securities Regulations (Details, Structure and Form of the Prospectus) 1969 (the **Prospectus Details Regulations** and the **Israel Securities Authority Exemption** , respectively). The Israel Securities Authority Exemption is contingent upon the condition that the Company shall prepare the prospectus as it would if it were issuing in the United States securities of the type that is being issued hereunder, in accordance with the U.S. Securities Act of 1933.

1.2.3 In accordance with the Israel Securities Authority Exemption, the Company drafted this prospectus based on the U.S. Securities Act of 1933 and the rules of the SEC, using Form F-3 (**Form F-3**).

1.2.4 Therefore, this prospectus (including all documents incorporated by reference) comply, in all material respects, with the Form F-3 requirement, with the exceptions of the cover, the General chapter, the Public Offering chapter, the Debentures chapter, the Underwriting chapter, and the fact that Form F-3 would have included certain sections and exhibits that are not included herein and which are irrelevant to a public offering of securities in Israel and which are technical by nature. This prospectus was not filed with or reviewed by the SEC.

1.2.5 The other chapters of the prospectus are as they would have been had the Company issued in the United States securities of the type being offered to the public under this prospectus.

1.2.6 The Company s current reports are in accordance with U.S. law and in the English language, in accordance with the rules of dual listing set forth in Chapter 3 of the Securities Law and the regulations promulgated thereuder. In addition, in accordance with the Israel Securities Authority Exemption, the Company shall continue to make its reports in accordance with the dual list rules as stated above.

When you are deciding whether to purchase the Debentures (Series B) (The: **Debentures**) being offered by this Prospectus, you should rely only on the information incorporated by reference or provided in this Prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this Prospectus is accurate as of any date other than the date on the front of those documents.

This Prospectus does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy the Debentures to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful, and, in particular, is not for distribution in the United States.

Offer and sale of the Debentures will be made solely in Israel to buyers who are located outside the United States and excluded from the definition of U.S. person pursuant to paragraph (k)(2)(vi) of Regulation S.

In this Prospectus, we , us and our mean Internet Gold - Golden Lines Ltd. and its subsidiaries.

2. NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus and the documents incorporated in it by referencecontain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as may, plans, anticipates, believes, estimates, predicts, intends, potential or the negative of such terms, or other comparable terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk Factors and certain other matters discussed in this Prospectus, the documents incorporated by reference in this Prospectus, and other publicly available sources. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements.

3. PROSPECTUS SUMMARY

Business Overview

We are a leading communications and interactive media group in Israel with two principal activities communications and Internet media. As part of our internal restructuring in 2006, we transferred our communications and media operations into two operating subsidiaries. We transferred our broadband and traditional voice services to 012 Smile.Communications Ltd., and our media business to Smile.Media Ltd.

On December 31, 2006, Smile.Communications Ltd. acquired 012 Golden Lines Ltd., a privately held communications company that was one of its principal competitors in Israel and in 2007, Smile.Communications Ltd. changed its name to 012 Smile.Communications Ltd., or 012 Smile.Com. As a result of the acquisition, 012 Smile.Com is now one of the major communication services providers in Israel as well as one of the three largest providers of broadband access and international telephony services

Our 012 Smile.Com subsidiary provides broadband data and traditional voice services to residential and business customers as well as to other Israeli and international communication services providers and our Smile.Media subsidiary is a diversified internet media company in Israel.

012 Smile.Com is a leading communication services provider in Israel, focused on offering broadband data and traditional voice services to residential and business customers, as well as to other Israeli and international communication services providers. 012 Smile.Com s broadband data services include broadband Internet access with a suite of value-added services, specialized data services, local telephony via voice over broadband, or VoB, server hosting and a WiFi network of hotspots across Israel. Its traditional voice services include outgoing and incoming international telephony, hubbing services for international carriers, roaming and signaling services for cellular operators and calling card services.

Smile.Media is a leading diversified Internet media company in Israel and its Internet properties, which include MSN Israel, are among the most recognized and highly trafficked websites in Israel. As of March 31, 2007, Smile.Media had 17 Internet properties in its network, consisting of 11 online content websites and six eCommerce websites. Smile.Media also markets 11 paid content or subscription services as part of its eCommerce business. In addition, it has exclusive rights to market advertising on seven websites owned by third parties.

Our Strategy

We are committed to our long-term goal of enhancing our position as a leading communications and media company in Israel and believe that there are significant opportunities to continue to grow both of our businesses.

Growth strategy for 012 Smile.Com

We believe that there are significant opportunities for 012 Smile.Com continue to grow its business. The sources of potential growth include 012 Smile.Com s ability to (i) increase its average revenue per user, or ARPU, from existing customers by providing bundled services, cross-selling services, and upgrading bandwidth, (ii) attract new customers by offering advanced services based on new technologies and cost-effective bundled services and (iii) leverage its network to offer new services, such as WiMAX based services. 012 Smile.Com s growth strategy is to:

Maximize customer satisfaction, retention and growth

We believe that the key factors contributing to customer satisfaction are network performance, reliability and availability of services, customer service and technical support and the range and quality of our services. 012 Smile.Com will continue to focus on its strong commitment to customer satisfaction to keep churn rates low and achieve customer growth through customer referrals.

Increase penetration and cross-selling of services to existing customer base

012 Smile.Com intends to leverage its large residential and business customer base of broadband data and traditional voice customers and its strong brand recognition to increase its ARPU by cross-selling its existing services, including broadband Internet access, traditional voice and VoB local telephony. We believe that bundling attracts new customers, adds value for current customers and increases the share of our customers expenditures on communications services and significantly increases customer retention.

Expand penetration into the local telephony market

012 Smile.Com intends to capitalize on its receipt of a commercial license to offer VoB services to increase the number of its local telephony customers and achieve a greater share of the local telephony market. We believe that 012 Smile.Com s VoB services will provide an innovative and complementary service for new customers and for its existing customer base of over 1,050,000 households and businesses. 012 Smile.Com s VoB services allow it to cost-effectively expand its penetration into the large local telephony market with a versatile, feature-rich, low cost service that can be bundled with other services that its offers its customers. We also believe that the expected implementation, towards the end of 2007, of the number portability program, mandated by the Ministry of Communications, will reduce barriers to entry and provide 012 Smile.Com an opportunity to increase its penetration of the local telephony market.

Use advanced technologies to expand our services and enter new markets

012 Smile.Com is continually expanding its service offerings by leveraging advanced technologies, specifically VoB and wireless solutions such as WiMAX and WiFi. With the use of the 3.7 gigahertz WiMAX spectrum that has been licensed to it by the Ministry, 012 Smile.Com is positioned to deliver a wide range of services over an independent infrastructure able to support future mobility applications, such as VoIP in conjunction with WiFi technology, and provide last-mile wireless broadband access for its business customers. 012 Smile.Com will also consider expanding its service offerings to include Internet protocol television, or IPTV, services, as well as mobile virtual network operator, or MVNO, services.

Selectively pursue growth opportunities. In addition to adding customers through its sales and marketing efforts, 012 Smile.Com plans to pursue growth opportunities through acquisitions or strategic alliances that will increase its customer base, allow it to take advantage of the unused capacity of its network, enhance its ability to sell and deliver value-added services and add revenues with minimal incremental costs. There are no current plans, proposals or arrangements with respect to any such acquisition.

Growth strategy for Smile.Media

Smile.Media strives to offer the most diverse and comprehensive range of Internet offerings in the markets it serves and seeks to develop new properties and acquire, improve and increase revenue generation from existing underdeveloped properties both in Israel and internationally, by implementing the following strategies:

Increase revenue from its existing properties

Smile.Media intends to increase its current user traffic and page views by offering more compelling content, increased functionality and additional services, such as community websites, social networking and user-generated content. Another opportunity to leverage its existing content and expand its advertising inventory comes through the extension of such content onto mobile platforms, adding to those currently offered by MSN Israel, Tipo, Seret and Vgames. Smile.Media also intends to continue to increase the advertising yield and transaction conversion rates of its existing Internet properties. We believe that improving the experience for users, advertisers, merchants and content providers, as well as expanding and enhancing its marketing initiatives to these groups, will enable Smile.Media to increase its market share.

Leverage its experience in identifying, acquiring and improving the financial performance of Internet properties

Smile.Media has experience in defining areas of demographic interest, identifying selective underperforming Internet properties, acquiring them and improving their financial performance. During the last four years Smile.Media acquired controlling interests in seven Internet properties and was able to realize cross-selling synergies and improve their operational results. We believe that similar Internet properties exist that might benefit from Smile.Media s brand recognition, management experience and economies of scale and that Smile.Media could turn them into performing assets under its network.

Leverage Smile.Media s demographic know-how to establish community based portals

We believe that Smile.Media s extensive understanding of different consumer groups, cultures and characteristic of some of the ethnic user groups serves to enable Smile.Media to facilitate online communities. A virtual community or online community is a group of people that primarily or initially communicate or interact via the Internet, rather than face to face using portals or Internet-based social networks. We believe that this form of socio-technical behavior will provide significant advertising and eCommerce revenue opportunities as the proliferation of Internet-based social networks will increase.

Pursue direct advertising relationships

Smile.Media plans to pursue more direct relationships with advertisers. In the year ended December 31, 2006, approximately 27% of its advertising revenue were derived from businesses to which Smile.Media directly sold advertising on its properties and the remaining revenue was derived from advertising agencies. Smile.Media intends to expand its direct sales force and provide incentives for them to focus on building more direct advertiser relationships. We believe that selling directly to more advertisers will reduce Smile.Media s commissions and increase its margins, while improving its relationships and ability to cross-sell.

Expand through international and domestic acquisitions and partnerships

Our goal is to expand Smile.Media s presence in Internet markets internationally and in Israel through the acquisition of, or partnership with, compatible Internet or other media businesses. We believe that applying Smile.Media s online revenue generation expertise to emerging markets outside of Israel is critical to the growth and diversification of its business. In addition, we believe that Smile.Media s experience in acquiring and integrating a broad range of Internet properties in Israel that address distinct languages and cultures, as well as niche vertical properties dedicated to servicing diverse demographics, make Smile.Media uniquely qualified to identify, acquire and successfully integrate properties in under-penetrated, under-developed Internet markets internationally. Within Israel, we believe the fragmented nature of website ownership provides opportunities to acquire smaller publishers who have had difficulty converting their user traffic into significant revenue.

We are considering initial public offerings of the ordinary shares of either or both of our two wholly-owned subsidiaries, 012 Smile.Communications Ltd. and Smile.Media Ltd. and may file registration statements with U.S. Securities and Exchange Commission for the offering of their ordinary shares in underwritten offerings. Our subsidiaries may not file a registration statement for a number of reasons, including if U.S. market conditions deteriorate, or if their performance will not support a successful initial public offering.

4. SUMMARY OF THE OFFERING

Issuer	Internet Gold - Golden Lines Ltd.
Debentures Offered	423,000,000 Debentures (Series B) of NIS 1 par value.
Maturity	The Debentures are repayable (principal) in 6 equal annual installments on November 1 of each of the years 2010 to 2015 (inclusive), bearing interest per year of 5%, and linked (principal and interest) to the Israeli consumer price index as published for August 2007. The interest will be paid every twelve months, on November 1 of each of the years 2008 to 2015 (inclusive). The Debentures (Series B) are offered to the public in 423,000 units by way of tender over the unit s price.
Interest on the Debentures	5%
Trustee	The Bank Leumi Le-Israel Trust Company Ltd.
Listing	Tel Aviv Stock Exchange

* For detailed information regarding the offering, see section 9.

5. SUMMARY FINANCIAL DATA

The following summary consolidated financial data for and as of the five years ended December 31, 2006 are derived from our audited consolidated financial statements which have been prepared in accordance with Israeli GAAP. Israeli GAAP differs in certain significant respects from U.S. GAAP, as described in Note 21 to our financial statements.

The summary consolidated financial data as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 have been derived from our audited consolidated financial statements and notes included elsewhere in our annual report of Form 20-F. The selected consolidated financial data as of December 31, 2004, 2003 and 2002 and for the years ended December 31, 2002 and 2003 have been derived from audited consolidated financial statements not included in our annual report of Form 20-F.

The summary consolidated financial data set forth below should be read in conjunction with and is qualified by reference to Item 5, Operating and Financial Review and Prospects of our annual report on Form 20-F and our consolidated financial statements and notes thereto included elsewhere therein.

The unaudited pro forma consolidated financial data for the year ended December 31, 2006 have been derived from our audited combined financial statements and the audited consolidated financial statements of 012 Golden Lines included elsewhere in this prospectus.

The translation of NIS amounts into dollars has been made solely for the convenience of the reader at the representative rate of exchange at December 31, 2006 (NIS 4.225= $1.00). The U.S. dollars amounts so presented should not be construed as representing amounts receivable, payable or incurred in U.S. dollars or convertible into U.S. dollars.

In 2007, we completed an internal restructuring transferring all of our broadband data and traditional voice services to our wholly-owned subsidiary, 012 Smile.Com and our Internet media activity to our wholly-owned subsidiary, Smile.Media. On December 31, 2006, our wholly owned subsidiary Smile.Communications Ltd. acquired 012 Golden Lines Ltd, a privately held communications company that was one of its principal competitors in Israel and in 2007 we renamed Smile.Communications Ltd. 012 Smile.Com. As a result of this acquisition, 012 Smile.Com is now one of the three largest providers of broadband Internet access and international telephony services in Israel.

In conformance with U.S and Israeli generally accepted accounting principles, or GAAP, we have included the assets and liabilities of 012 Golden Lines in our consolidated financial statements as of December 31, 2006 but have not included its operating results, which will be incorporated into our statements of operations starting January 1, 2007.

Consolidated Statement of Operations Data:

	Convenience Translation into Dollars	Year Ended December 31,				
	2006	**2006**	**2005***	**2004***	**2003***	**2002**
	(In thousands, except share data)					
Israeli GAAP:						
Revenues:						
Communications	81,867	342,506	246,579	184,844*	157,892*	169,326*
Media	15,587	65,853	42,191*	30,872*	19,164*	14,992*
Total revenues	96,653	408,359	288,770	215,716	177,056	184,318
Costs and expenses:						
Cost of revenues	59,743	252,413	154,781*	93,019*	90,285*	99,564
Selling and marketing expenses	17,888	75,576	71,935*	73,095*	41,393	37,125
General and administrative expenses	8,037	33,957	33,156	24,258	21,908	21,209
Total costs and expenses	85,668	361,946	259,872	190,372	153,586	157,898
Income from operations	10,985	46,413	28,898	25,344	23,470	26,420
Financing (expenses) income, net	(1,329)	(5,615)	(9,403)	122	(3,235)	2,151
Other income (expenses), net	(3,033)	(12,813)	237	(1,077)	(2,592)	(3)
Income from continuing operations	6,623	27,985	19,732	24,389	17,643	28,568
Income tax benefits (expenses), net	(304)	(1,286)	(1,451)	301	1,935	-
Income after income tax	6,319	26,669	18,281	24,690	19,578	28,568
Company s share in net loss of investees from continued operations	(79)	(334)	-	(396)	(1,538)	(1,530)
Minority share in income	(8)	(34)	-	-	-	-
Income from continued operations	6,232	26,331	18,281	24,294	18,040	27,038
Company s share in loss of investees from discontinued operations	-	-	-	(4,763)	(3,737)	(7,080)
Net income	6,232	26,331	18,281	19,531	14,303	19,958
Income per share, basic and diluted						
Net income per NIS 0.01 per value of shares (in NIS) from continued operations	0.34	1.43	0.99	1.32	0.98	1.47
Net income (loss) per NIS 0.01 per value of shares (in NIS) from discontinued operations	-	-	-	(0.26)	(0.20)	(0.39)

	0.34	1.43	0.99	1.06	0.78	1.08
Weighted average number of shares outstanding	18,438	18,438	18,432	18,432	18,432	18,432

* Restated as a result of adoption of Standard No. 25 Revenue Recognition

U.S. GAAP:						
Net income from continued operations	2,624	11,085	18,281	27,164	18,874	27,051
Net loss - discontinued operations	-	-	-	(6,588)	(6,803)	(21,128)
Net income	2,624	11,085	18,281	20,576	12,071	5,923

6. RISK FACTORS

Investing in our Debentures involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our Debentures. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks.

Risk Related to Internet Gold Generally

We have experienced significant growth, which may be difficult to sustain and has placed a significant strain on our resources and we may not be able to successfully implement our growth strategy, which could adversely affect our ability to continue to grow or sustain our revenues and profitability.

As part of our growth strategy, we acquired 012 Golden Lines on December 31, 2006. With this acquisition, our total assets grew to approximately NIS 1.7 billion as at December 31, 2006 from NIS 502 million as at December 31, 2005, and our revenues grew, on a pro forma basis, to NIS 1.1 billion for the year ended December 31, 2006 from NIS 911.2 million for the year ended December 31, 2005. We experienced significant growth prior to the acquisition of 012 Golden Lines, as our revenues grew to NIS 408.4 million for the year ended December 31, 2006 from NIS 288.8 million for the year ended December 31, 2005. Our organic growth and the recent acquisition of 012 Golden Lines have placed, and are likely to continue to place, a significant strain on our management as well as our operational, administrative and financial resources and our internal controls. The demand on our network infrastructure, technical and customer support staff and other resources has grown with our expanding customer base and is expected to continue to grow as we expand our business. There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to continue to grow, and any failure to do so could affect our ability to generate revenues, control expenses and sustain or increase our profitability.

We do not expect to sustain our recent revenue growth rate, which may impair our ability to meet our obligations under the* Debentures*.

Our revenues increased at a compound annual growth rate, or CAGR, of 32.1% from NIS 177.1 million for the year ended December 31, 2003 to NIS 408.4 million for the year ended December 31, 2006. We do not expect to sustain our recent growth rate in future periods. You should not rely on our revenue growth in any prior quarterly or annual period as an indication of our future revenue growth. If we are unable to maintain adequate revenue growth, we may not have sufficient resources to execute our business objectives and our ability to meet our obligations under the Debenturesmay be impaired. You must consider our business and prospects in light of the risks and difficulties we encounter as a rapidly growing communication services provider.

If we do not successfully continue to develop our brands, we may be unable to attract enough customers to our services to maintain or increase our market share, which may impair our ability to meet our obligations under the Debentures.

We believe that we must maintain and strengthen awareness of our 012 Smile.Com and Smile. Media brands. If we do not successfully continue to develop our brands, we may be unable to attract additional customers and increase our market share, which may impair our ability to meet our obligations under the Debentures.Brand recognition may become even more important in the future if competition increases in the communications market. We intend to continue to pursue a brand-enhancement strategy, which may include mass market and multimedia advertising, promotional programs, public relations activities and joint marketing programs. These initiatives will involve significant expenses. If our brand enhancement strategy is unsuccessful, we may not be able to attract additional customers, our sales and marketing expenses may never be recovered and we may be unable to increase future revenues.

We are reliant on our senior management team and a loss of any key member of our senior management could have adverse effect on our future.

Our future development is dependent upon our present and prospective management team, including our chief executive officer, Eli Holtzman who also serves as chief executive officer of Smile.Media and vice chairman of 012 Smile.Com, Doron Turgeman, our chief financial officer who also serves as deputy chief executive officer and chief financial officer of Smile.Media, Stella Handler, the chief executive officer of 012 Smile.Com, and Doron Ilan, the chief financial officer and vice president finance of 012 Smile.Com. We do not have key person life insurance policies covering any of our officers or employees. The loss of any key member of our senior management for any reason may have an adverse effect on our future. In addition, our success depends on our ability to attract and retain highly qualified key management and employees. Competition for highly-skilled engineers and managers is intense in the industry in which we operate, and there can be no assurance that we will be successful in attracting, assimilating or retaining qualified engineers and project mangers to fulfill our current or future needs. This could adversely impact our results of operations or financial performance.

We may not be able to protect our intellectual property or successfully defend infringement claims.

We regard our trademarks, service marks, copyrights, domain names, trade secrets and similar intellectual property as critical to our success. We rely on trademark, copyright law, trade secret protection and confidentiality agreements with our employees, customers, partners and others to protect our proprietary rights. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. Third parties may infringe or misappropriate our copyrights, service marks, trademarks and similar proprietary rights. If we are unable to protect our proprietary rights from unauthorized use, the image of our brands may be harmed and our business may suffer.

The protection of our trademarks, service marks, copyrights, domain names, trade secrets and other intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect these assets may not adequately protect our rights, or others may independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights. Such events could substantially diminish the value of our technology and property which could adversely affect our business.

We may be subject to intellectual property infringement claims, which are costly to defend, could result in significant damage awards and could limit our ability to provide certain content or use certain technologies in the future.

Third parties may in the future assert claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights or failure to maintain confidentiality of user data. In addition, third parties may make trademark infringement and related claims against us over the display of search results triggered by search terms that include trademark terms.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement claims. In the event that there is a determination that we have infringed third-party proprietary rights such as patents, copyrights, trademark rights, trade secret rights or other third-party rights such as publicity and privacy rights, we could incur substantial monetary liability, be required to enter into costly royalty or licensing agreements or be prevented from using the rights, which could require us to change our business practices in the future and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. In addition, many of our agreements with our customers or affiliates may require us to indemnify them for certain third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. The occurrence of any of these results could harm our brand and negatively impact our operating results.

Risks Related to Our Communications Division

We may not be successful in integrating the operations of 012 Golden Lines and may incur substantial costs in the future in connection with our integration efforts.

Our ability to successfully integrate the businesses of 012 Golden Lines and Smile.Communications is uncertain. For the year ended December 31, 2006, 012 Golden Lines had revenues of approximately NIS 697 million and as a result of the acquisition, 012 Smile.Com more than doubled in size. We have begun to integrate the operations of 012 Golden Lines with those of Smile.Communications according to a plan that is intended to result in cost savings and other synergies. As part of this plan, we will need to, among other things, integrate the various network platforms, operating and billing systems and other software of the combined company, and consolidate the workforce and facilities, while continuing to provide quality services and accurate bills to the combined customer base.

012 Smile.Com s goal is to optimize its ability to provide communications services to its customers, while controlling costs and improving the profitability of the integrated business. However, 012 Smile.Com may not be successful in implementing its integration plan and may incur substantial costs, including unanticipated costs, in connection with its integration efforts. For example, if the integration of the 012 Golden Lines and Smile.Communication s billing systems or the consolidation of call centers is not successful, 012 Smile.Com could experience an adverse effect on its customer service, customer churn rate and an increase in the cost of maintaining these systems going forward. We could also experience operational failures related to billing and collection of revenue from our customers, which, depending on the severity of the failure, could have a material adverse effect on our business.

The demands on 012 Smile.Com s management with respect to the integration efforts have impacted the amount of time available to them to operate the business and plan for and implement the growth strategy of 012 Smile.Com. Moreover, the new management team has worked together for a limited period of time and there can be no assurance that they will be effective in implementing our integration plan or growth strategy. If we are not able to successfully implement our integration plan, we may not achieve the expected benefits, including the expected cost savings and synergies, from the 012 Golden Lines acquisition and our business, financial condition and results of operations may be adversely affected.

012 Smile.Com has experienced significant growth, which has placed a substantial strain on our resources. The failure to successfully implement our growth strategy could adversely affect our ability to continue to grow or sustain 012 Smile.Com s revenues and profitability.

As part of our growth strategy, 012 Smile.Com acquired 012 Golden Lines on December 31, 2006. With this acquisition, the revenues of our communications division grew on a pro forma basis, to NIS 1,038.5 million for the year ended December 31, 2006 from NIS 869.0 million for the year ended December 31, 2005. 012 Smile.Com experienced significant growth prior to the acquisition of 012 Golden Lines, as its revenue grew to NIS 342.5 million for the year ended December 31, 2006 from NIS 246.6million for the year ended December 31, 2005. The organic growth of 012 Smile.Com and the acquisition of 012 Golden Lines have placed, and are likely to continue to place, a significant strain on 012 Smile.Com s operational, administrative and financial resources. The demand on 012 Smile.Com s network infrastructure, technical and customer support staff and other resources has grown with its expanding customer base and is expected to continue to grow as it expands.

Another part of 012 Smile.Com s growth strategy is managing and reducing the costs associated with delivering its services, including recurring service costs such as communications and customer support costs as well as costs incurred to add new customers, such as sales and marketing, installation and hardware costs. There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to continue to grow, and any failure to do so could affect our ability to generate revenues, control expenses and sustain or increase our profitability.

Changes in the regulatory and legal compliance environment could adversely affect 012 Smile.Com s business.

012 Smile.Com operates in a highly regulated market, which limits its flexibility in managing its business. 012 Smile.Com is subject to regulation regarding communications licenses, antitrust, and arrangements pertaining to interconnection and leased lines. The business and operations of 012 Smile.Com could be adversely affected by decisions by regulators, in particular the Ministry of Communications of the State of Israel, or the Ministry, as well as changes in laws, regulations or government policy affecting its business activities, such as the following:

- Deregulating the monopoly-based restrictions imposed on Bezeq The Israel Telecommunication Corp., Limited, Israel s incumbent telephony operator, and its affiliates;
- Deregulating the restriction imposed the Bezeq group, including on D.B.S. Satellite Services (1998) Ltd., which operates under the trade name YES, Israel s sole satellite television service provider, that prevents it from providing voice over broadband, or VoB, services;
- Deregulating the restrictions imposed on cellular operators that currently prevent them from providing international telephony services;

Changing the regulation that requires the incumbent infrastructure providers to allow us open access enabling us to provide broadband data and traditional voice services, or deregulating the restrictions that currently prevent them from charging us for the use of their infrastructure;

Changing the regulations affecting our interconnection arrangements with other operators;

Changing call termination tariffs;

Establishing regulations relating to initiation of WiMAX services and installation of WiMAX antennae, including environmental and land use regulation;

Limiting the prices that we may charge our customers;

Broadening or increasing the range of revenues on which royalties are paid; and

Changing the regulations affecting our international and local telephony business.

The current legislation in Israel grants the Ministry extensive regulatory and supervisory authority with respect to 012 Smile.Com s business, as well as the authority to impose substantial sanctions, such as fines. As a result, the interpretation and implementation of laws and regulations as well as provisions of its licenses are subject to the administrative discretion of the Ministry.

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 we expect and may be further amended, interpreted or enforced in an unexpected manner or in a manner adverse to our business.

The regulatory limitations on Bezeq could change in the future and result in increased competition, and a reduction in 012 Smile.Com s revenues from interconnect fees.

Bezeq is currently subject to several regulatory limitations on its ability to provide bundled service offerings, restrictions to entry into the VoB market and supervised tariffs. Under its license, Bezeq is also subject to the principle of structural separation in the provision of various communication services. Once Bezeq s market share falls below certain thresholds, Bezeq may apply to the Ministry to begin providing bundled services, which could potentially include local and international telephony, broadband Internet access, ISP services, cellular services and multi-channel TV. Bezeq may also apply to the Ministry to offer discounts on its supervised tariffs in the domestic fixed telephony market.

Bezeq pays 012 Smile.Com interconnect fees with respect to calls being made from Bezeq fixed-lines to 012 Smile.Com s VoB lines. Bezeq has raised the claim that it should not be paying such interconnect fees because 012 Smile.Com uses its infrastructure. Although the Ministry has determined that Bezeq should pay interconnect fees for calls originated from Bezeq fixed-lines to 012 Smile.Com s lines at the same tariff as we pay Bezeq, this determination will be reviewed by the Ministry in February 2009 and there is no certainty that the Ministry will not reverse its determination that Bezeq should continue to pay such interconnect fees at the then current rate or at all.

Further deregulation of various segments of the communication services market may allow Bezeq to be released from regulatory limitations, allowing it to bundle services and compete directly with us. Bezeq and its subsidiaries are not allowed to enter the VoB market until Bezeq s market share falls under 85% of the fixed-line telephony market.

We do not know when this will occur or that the Ministry will not allow Bezeq International, to enter the market prior to its occurrence.

Furthermore, the Ministry of Communications will, in not later than one year, examine the competitive position of YES. We cannot be certain that the Ministry will not allow YES to enter the VoB market if its competitive position deteriorates. If the Ministry releases Bezeq from the prevailing regulatory limitations, it would enjoy a competitive advantage because it will be able to bundle services through its affiliates or in conjunction with a third party. This could result in Bezeq becoming an even stronger competitor. Bezeq currently has an advantageous position in the market because it has a dominant presence in all segments and can easily provide its customers with access to a great variety of services.

012 Smile.Com depends on maintaining and renewing its existing regulatory licenses in order to fully conduct its business. 012 Smile.Com s inability to maintain and renew its existing licenses would negatively impact our results of operations.

012 Smile.Com s ability to provide its broadband data and traditional voice services depends on its ability to maintain and renew the licenses it has received from the Ministry. Although 012 Smile.Com is entitled to renew its licenses, such licenses are subject to many terms and conditions. Any renewal or extension is subject to the discretion of the Ministry and may be renewed or extended, if at all, on terms materially different to the terms under which 012 Smile.Com now operates. Any such change in the terms and conditions of these licenses may materially and adversely affect our results of operations. Such licenses may be suspended or revoked by the Ministry if 012 Smile.Com defaults under or violates their terms. Each license requires 012 Smile.Com to adhere to certain requirements, which include the scope of services to be provided under the license, the amount of royalties to be paid to the Ministry, technical standards employed in providing the services, maintenance and support procedures and protocols, communications with customers and information to be provided to the Ministry on a regular basis.

The regulations promulgated under the Israeli Communications Law, 1982, restrict ownership of our shares and who can serve as our directors. The regulations provide that a majority of our directors must be Israeli citizens and residents, Israeli citizens and residents must own at least 20% of our outstanding share capital and must have the right to appoint at least 20% of our directors. In addition, our licenses provide that, without the approval of the Ministry, no person may acquire shares representing 10% or more of our outstanding share capital. If these requirements are not complied with, we will be found to be in breach with our licenses and our licenses could be changed, suspended or revoked and we may also incur substantial fines.

The DFL license granted to 012 Smile.Com s wholly-owned subsidiary, 012 Telecom, in February 2007 requires us to provide the subscribers to our local telephony services the ability to make international calls through the international operator in Israel of their choice. Currently, due to technical limitations, our subscribers can dial abroad only through our system, but we expect to be able to resolve the issue by October 2007. We have received a letter from the Ministry requesting our response to a complaint it received from one subscriber.

While we believe that 012 Smile.Com is currently substantially in compliance with all of the material requirements of its licenses, the technical standards used to measure these requirements as well as other license provisions are subject to interpretation and we cannot be certain of 012 Smile.Com s compliance. Accordingly, we cannot be certain that 012 Smile.Com s licenses will not be revoked, will be extended when necessary, or, if extended, on what terms an extension may be granted.

The communications industry is dynamic and 012 Smile.Com will need to seek additional licenses, including the license to provide WiMAX services on a commercial basis, in the future. The inability to obtain any such new license may negatively impact our growth opportunities and results of operations.

The communications industry is constantly evolving. New technologies and processes may require additional licenses from the Ministry. We cannot be certain that any such future licenses, including the license to provide WiMAX services on a commercial basis, will be granted to us or to our competitors and not to us, or on what terms they may be granted to 012 Smile.Com or to its competitors. 012 Smile.Com s ability to introduce new services, such as those based on WiMAX technologies, depends upon its ability to receive the appropriate licenses.

The introduction of any new licensed services under an existing license must be authorized by the Ministry and is subject to a review period of up to 60 days, which may be extended by the Ministry. Such review may cause 012 Smile.Com to lose critical time in bringing new services to market. Furthermore, the Ministry may refuse to allow 012 Smile.Com to introduce such new services or make the introduction of the services subject to various conditions. 012 Smile.Com is also considering the expansion of its service offerings to include Internet protocol television, or IPTV, as well as mobile virtual network operator, or MVNO, but have not yet applied for or received a license from the Ministry to provide such services. 012 Smile.Com s inability to obtain any new license, including the license to provide WiMAX services, IPTV or MVNO on a commercial basis or introduce new services under an existing license, may negatively impact its growth opportunities and results of operations.

012 Smile.Com operates in the highly competitive communications industry with existing participants and potential participants that have significant resources and customers, and a regulatory authority that has encouraged new entrants, which could intensify price competition and limit its ability to maintain or increase its market share, and may impair our ability to meet our obligations under the Debentures.

012 Smile.Com is subject to intense competition, which we expect will continue in the future. Moreover, 012 Smile.Com s services are subject to regulation by the Ministry, whose policy is to encourage new entrants and not limit the number of licenses, which may continue to increase competition and may lead to further reductions in prices and fees charged to customers.

The Ministry has encouraged new entrants into the broadband access market. HOT, the incumbent local cable television services provider that offers cable-modem access, has been legally permitted since March 2002 to provide Internet services through its affiliates, but, has chosen not to do so. While we cannot predict if or when HOT will become an Internet service provider, or ISP, its entry into the market could significantly harm our competitive position in the broadband access market.

The Ministry has also encouraged new entrants into the international telephony services sub-sector. Israel s cellular operators are currently not licensed to provide international telephony services. If this situation were to change, competition would be further intensified and could require 012 Smile.Com to lower its prices, grant incentives to customers, increase selling and marketing expenses and related customer acquisition costs and could also result in increased customer churn. Furthermore, recently, the operations of several of our competitors, NetVision, Barak and GlobCall were combined into a single entity by The IDB Group, a large Israeli investment and industrial group. This development could create a more formidable competitor Offering bundled international telephony, broadband Internet access, data, local telephony and mobile services, which could harm the competitive position of 012 Smile.Com.

We expect other competitors, including companies that are not presently engaged in local and international telephony, to provide VoB services, as well as WiMAX services when they receive appropriate licenses from the Ministry, which could adversely impact 012 Smile.Com s ability to increase its market share, and may impair our ability to meet our obligations under the Debentures.

012 Smile.Com also competes against established alternative voice communication providers, such as Skype (a service of eBay Inc.), which is not subject to licensing restrictions in Israel, as well as independent voice over Internet Protocol, or VoIP, service providers which may choose to sacrifice revenue in order to gain market share and may offer their services at lower prices or for free. Such competitive environment could intensify price competition and limit 012 Smile.Com s ability to maintain or increase our market share of the local telephony market.

A reduced demand for hubbing services by one or more of 012 Smile.Com s significant hubbing services customers could significantly reduce its hubbing services revenues.

The profitability of 012 Smile.Com s hubbing services business is driven by the needs of its customers whose demand for hubbing services is constantly fluctuating. As a result, the hubbing services business is subject to a high degree of volatility and could result in fluctuations in 012 Smile.Com s reported revenues and net income on a quarterly basis. A significant reduction in demand for hubbing services by one or more of 012 Smile.Com s principal hubbing services customers would have an adverse affect on our operating results and profitability.

012 Smile.Com operates in a market which already exhibits maturity and high user penetration and it may have to offer price reductions and increase marketing efforts to attract and retain customers.

The Israeli communications market is mature, with both traditional voice and broadband services being particularly competitive segments of the communications market, as demonstrated by the estimated 91%household penetration of fixed telephone lines and 62% broadband access penetration rate as of June 30, 2006 according to the Ministry s publications. 012 Smile.Com s future revenues will depend significantly on its ability to retain existing customers, to sell those customers additional services, such as local telephony, and to attract new customers from other providers. In addition, the competitive market environment has required it in the past and may require us in the future to adopt an aggressive marketing policy in order to attract a greater number of broadband customers. If adopted in the future, 012 Smile.Com cannot be certain that this strategy will be successful. Price reductions caused by increased competition, as well as the expenses associated with the marketing efforts required to attract and retain customers, may have a negative impact on our profitability.

We may be subject to fines or face claims of being in violation of the Communications Law or in violation of our license in connection with the requirement to provide number portability.

As a result of an amendment to the Communications Law in March 2005, international, cellular and landline telephone operators were required to implement number portability by September 1, 2006. Number portability would permit the local telephony subscribers and the cellular subscribers to change to another network operator (landline to landline or cellular to cellular) without having to change their telephone numbers. Despite efforts to introduce the requisite technology and coordinate the transition to number portability by September 1, 2006, currently none of the operators has implemented number portability. A petition has been filed with the Israeli High Court of Justice for the issuance of an order to the Government of Israel and the Ministry to show cause for their failure to act immediately in order to initiate an amendment to the Communications Law postponing the deadline for the implementation of number portability. If a reasonable extension to the deadline is not affected or other adequate relief is not granted, we may be exposed to sanctions and legal claims, including class action lawsuits by subscribers. On May 24, 2007, all of the cellular and landline telephony operators, including 012 Smile.Com, were notified by the Ministry that failure to implement the number portability program constituted a continued violation of the applicable licenses (both international and DFL licenses) and that it is considering imposing a fine of NIS 2,032,750 and additional daily fines of NIS 6,450 beginning May 25, 2007, with respect to each of our two licenses. 012 Smile.Com, as well as the other operators, were given the opportunity to respond to this notification by July 5, 2007. To date, the Ministry has not imposed the fines. 012 Smile.Com is currently conducting tests of its number portability program and expects to be able to provide number portability by December 1, 2007, the date that the cellular and landline telephony operators have targeted as the initiation date for number portability in Israel. If the Ministry of Communications does implement fines prior to our ability to provide number portability, or if we are unsuccessful in implementing number portability, our profitability could be adversely affected.

012 Smile.Com s VoB services are not the same as traditional telephony services and may not be adopted by mainstream customers.

012 Smile.Com s VoB services are not the same as traditional telephony services. The quality of VoB service is dependent to a great measure on the quality of broadband access provided by Bezeq and HOT over which we have no control. Among the differences between 012 Smile.Com s VoB service and traditional telephony services are:

If 012 Smile.Com s customers experience a loss of power, their services will be interrupted;

012 Smile.Com s VoB services will be interrupted if its customers experience interruption in broadband access; and
Depending on the quality of the broadband access provided to 012 Smile.Com s customers, they may experience lower call quality than that experienced over traditional fixed-line telephones, including static, echoes and delays in transmission.

The growth of 012 Smile.Com VoB business is dependent on the adoption of its services by mainstream customers and therefore the rate of adoption may have a significant effect on our growth. If customers do not accept these differences between VoB service and traditional telephony service, they may choose to continue using traditional telephony services or may choose to return to services provided by traditional telephone companies.

The operations of 012 Smile.Com depend on its ability to successfully expand and upgrade its network and integrate new technologies and equipment into its network. Accordingly, 012 Smile.Com faces an increased risk of system failure and difficulty in making new features available.

Capacity constraints within 012 Smile.Com s networks and those of its suppliers have occurred in the past and will likely occur in the future. As the number of its customers using broadband data services and the amount and type of information they wish to transmit over the Internet increases, 012 Smile.Com may need to expand and upgrade its technology, processing systems and network infrastructure, which could be expensive and involve substantial management resources. In order to preserve the current service level to an increasing number of broadband data customers, 012 Smile.Com may be required to extend its bandwidth by an additional 5%-10% in 2007. We do not know whether 012 Smile.Com will be able to accurately project the rate or timing of any such increases, or expand and upgrade 012 Smile.Com s systems and infrastructure in a timely and cost-efficient manner. Any future system failures or difficulty in expanding or upgrading our network, or making new features available could increase 012 Smile.Com expenses and negatively impact 012 Smile.Com financial results.

The broadband data services and the traditional voice services markets are subject to rapid technological change, which could adversely affect 012 Smile.Com s ability to compete.

The markets in which 012 Smile.Com competes are characterized by rapidly changing and converging technology, evolving industry standards, frequent new service announcements, introductions and enhancements and changing customer demands. New services and technologies may be superior to the services or technologies that 012 Smile.Com uses and may render its services and technologies obsolete or require it to incur substantial expenditures to modify or adapt its services or technologies. The development and expansion of 012 Smile.Com s services is dependent upon adopting new technologies and updating its systems to meet new standards. This can be a lengthy process involving long and complex evaluations and decision-making procedures that can continue over a number of months or even years. 012 Smile.Com s future success will depend on its ability to continually improve the performance, features and reliability of its broadband data and traditional voice services in response to competitive service Offerings and the evolving demands of the marketplace.

The cost of implementing major infrastructure upgrade projects may fluctuate due to a number of variables over which 012 Smile.Com has little or no control and, even though it estimates the cost of such projects based on its previous experience, costs may exceed its estimations. Such fluctuations may be due to a lengthy or complex implementation process and/or the lack of commitment of sufficient resources of, or delays caused by, the ultimate supplier and could have a negative impact on our results of operations or financial performance.

012 Smile.Com may not be successful in its introduction of WiMAX services, which could adversely affect our growth strategy.

In March 2007, 012 Smile.Com was awarded the first technology experimental license to conduct fixed WiMAX trials in Israel and it intends to initiate fixed WiMAX trials in the near future. 012 Smile.Com intends to test Fixed WiMAX technology, which delivers transmissions via a wireless broadband connection from a single point to multi-points. If 012 Smile.Com is not successful in its introduction of fixed WiMAX services or such services do not achieve customer acceptance, our growth strategy may be adversely affected.

012 Smile.Com may not be able to retain its present customers who use its legacy 015 international telephony prefix when it attempts to transfer them to its 012 international telephony prefix in accordance with regulatory requirements.

In connection with 012 Smile.Com obtaining regulatory approval for the acquisition of 012 Golden Lines, the Ministry required 012 Smile.Com to cease offering its legacy 015 international telephony prefix by January 2008, but the Ministry will consider, upon request, extending the date in light of the competitive situation in the international telephony market. For the year ended December 31, 2006, 012 Smile.Com had NIS 160 million of revenues from this service and has substantially retained this customer base. 012 Smile.Com may not be able to retain the customers who continue to use the 015 prefix when it attempts to transfer them to the 012 prefix prior to January 2008, which could have a negative impact on our recurring revenues.

012 Smile.Com is dependent on certain suppliers and, if any of its arrangements with these suppliers is terminated, it may not be able to replace them on commercially reasonable terms.

012 Smile.Com relies on a number of third-party computer systems, networks and service providers, including local and international telephony and cable companies. All broadband access by its customers is, and will continue to be, connected through the infrastructure of local access providers, Bezeq and HOT, and is dependent on the continuation of the open access policy of the Ministry.

012 Smile.Com s business and its ability to provides services to customers are dependent on the infrastructure of Bezeq and HOT. At present, the Ministry does not permit HOT and Bezeq to charge for use of their infrastructure. If such restriction is deregulated, 012 Smile.Com may incur substantial costs, which may adversely affect our results of operations or financial performance.

012 Smile.Com s ISP services are also dependent on the communications infrastructure owned and maintained by local access providers. Bezeq has suffered work stoppages on several occasions in recent years as a result of conflicts with its unionized employees. These work stoppages resulted in several days of interruption to the services the 012 Smile.Com provides. In addition, Bezeq, HOT and other infrastructure providers have suffered technical network failures in the past. A disruption in customer access to Israel s fixed-line communications infrastructure could significantly impact the services that 012 Smile.Com provides to its customers. An increase in 012 Smile.Com s cost of access to Israel s fixed-line communications infrastructure could adversely impact its results of operations. 012 Smile.Com also depends on third parties for the physical repair and maintenance of leased lines. If an interruption or deterioration in the performance of these third-party services occurs, Smile.Com s services may be disrupted.

Many of 012 Smile.Com s services are dependent on the submarine infrastructure made available by MedNautilus, which is owned by Telecom Italia and connects countries bordering the Mediterranean Sea to all major Western European countries and to the United States. MedNautilus has an effective monopoly over the provision of international submarine services to the Israeli communications industry. Although prices in respect of maintenance and current capacity are agreed on a long term basis and Smile.Com s contract with MedNautilus sets out the prices to be paid by Smile.Com for additional capacity for approximately two years, MedNautilus has the ability to raise prices without Smile.Com being able to seek an alternative supplier for additional capacity.

Many of 012 Smile.Com s relationships with third party providers are terminable upon short notice. In addition, many of its third party suppliers and communications carriers sell or lease services to 012 Smile.Com s competitors and may be, or in the future may become, competitors themselves. If any of their arrangements with third parties is terminated, 012 Smile.Com may not be able to replace them on commercially reasonable terms or at all.

012 Smile.Com is exposed to risks in connection with its network infrastructure and is dependent on services received from external suppliers. If the level of service received by 012 Smile.Com from its external suppliers decreases, it may not be able to maintain the quality and breadth of its services which could reduce 012 Smile.Com revenues and harm 012 Smile.Com operations.

012 Smile.Com s network platform is highly complex. Multiple faults occurring at the same time could severely affect its service. Although 012 Smile.Com s engineering staff is trained to operate and maintain its systems, there are numerous functions that they are unable to perform without external support. In addition, if the level of service we receive from our external suppliers decreases, it may adversely impact 012 Smile.Com s ability to properly maintain and operate its systems and therefore have a direct effect on its service. Also, as VoB technology continues to evolve, 012 Smile.Com will be faced with the risks associated with the use of new software.

012 Smile.Com does not have a direct network connection to all the possible call destinations around the world and depends on its business partners to connect calls generated by its customers to their final destinations worldwide. 012 Smile.Com s level of service is largely dependent on the level of service it receives from its international partners with respect to both call completion as well as call quality. Although 012 Smile.Com makes extensive efforts to ensure quality of the calls as well as the breadth of its services, it cannot be sure that its partners will provide an adequate level of service, that it would be able to successfully replace a partner should that become necessary or that it will be able to maintain and increase the quality and breadth of its services.

012 Smile.Com s products and services may become obsolete, and it may not be able to develop competitive products or services on a timely basis or at all, which could negatively impact 012 Smile.Com s ability to compete and 012 Smile.Com s financial results.

The communications services industry is characterized by rapid technological change, competitive pricing, frequent new service introductions, evolving industry standards and changing regulatory requirements. Each of these development efforts faces a number of continuing technological and operational challenges. 012 Smile.Com believes that its success will depend on its ability to anticipate and adapt to these and other challenges and to offer competitive services on a timely basis. 012 Smile.Com faces a number of difficulties and uncertainties associated with its reliance on future technological development, such as:

Other service providers may use more traditional and commercially proven means to deliver similar or alternative services or use more efficient, less expensive technologies;

Consumers may not subscribe for its services;

012 Smile.Com may be unable to respond successfully to advances in competing technologies in a timely and cost-efficient manner;

012 Smile.Com may lack the financial and operational resources necessary to enable migration toward mobile WiMAX technology and the development and deployment of network components and software that do not currently exist and that may require substantial upgrades to or replacements of existing infrastructure; and

Existing, proposed or undeveloped technologies may render 012 Smile.Com s existing or planned services less profitable or obsolete.

012 Smile.Com s systems and operations are vulnerable to damage or interruption, expose us to material risk of loss or litigation and harm our reputation

012 Smile.Com 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 012 Smile.Com to a material risk of loss or litigation. In addition, if a computer virus, sabotage or other failure affecting 012 Smile.Com s systems is highly publicized, its reputation could be damaged and customer growth could decrease. While 012 Smile.Com currently has partially redundant systems, it does not have full redundancy, a formal disaster recovery plan or alternative providers of hosting services. In addition, 012 Smile.Com does not carry sufficient natural disaster or business interruption insurance to compensate for losses that could occur.

012 Smile.Com may be exposed to substantial liabilities arising out of its broadband data and traditional voice services.

The law relating to the liability of ISPs for activities of their users is currently unsettled both within Israel and internationally. Claims by private or governmental entities may be brought against 012 Smile.Com 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 may be posted online or generated by its customers. The defense of any such actions could be costly and involve significant time and attention of management and other resources. In addition, 012 Smile.Com s professional liability insurance policy may not provide sufficient protection or cover all such exposure. Furthermore new legislation and court decisions may expose 012 Smile.Com to liabilities or affect its services. Additional laws and regulations may be adopted with respect to the Internet, covering issues such as content, user privacy, pricing and other controls. For example, the Ministry is currently considering the implementation of broadcast content regulation with respect to electronic distribution of video content, including content distributed over the Internet, which would, among other things, block violent and sexual content for the protection of minors.

It is also possible that if any information provided directly by 012 Smile.Com contains errors or is otherwise negligently provided to users, third parties could make claims against 012 Smile.Com. For example, 012 Smile.Com offers Web-based e-mail services, which expose it to potential risks, such as liabilities or claims resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail, or interruptions or delays in e-mail service. In the event that 012 Smile.Com is found responsible for any such liability and is required to pay damages, our results of operation and financial performance may be adversely affected. Even if 012 Smile.Com ultimately succeeds, legal actions would divert management time and resources, could be costly and are likely to generate negative publicity. 012 Smile.Com may also be forced to implement costly measures to alter the way its services are provided to avoid any further potential liability.

Risk Related to Our Internet Media Division

Smile.Media generates a substantial part of its revenue from MSN Israel, which is owned by it and Microsoft Corporation, and the termination of its agreements with Microsoft Corporation relating to MSN Israel could seriously harm its business.

For the years ended December 31, 2004, 2005 and 2006, approximately 64%, 54% and 50% of our media division s total revenue, respectively, was attributable to its 50.1% owned portal subsidiary, MSN Israel Ltd., which is owned by Smile.Media and Microsoft Corporation. Under the terms of the agreement with Microsoft Corporation, we agreed to provide the financing for the activities of MSN Israel by means of loans in accordance with a business plan and budget approved by the board of directors of MSN Israel from time-to-time and/or guarantees for bank loans. In connection with our assignment to Smile.Media of our rights in and obligations to MSN Israel, Smile.Media also assumed the rights and responsibilities with respect to funds received by MSN Israel from us and the interest accrued on those funds. Smile.Media, as our assignee, has the right to terminate the agreements in the event that MSN Israel s cumulative losses are $10 million or more. Until such time as the loan is repaid in full, MSN Israel is required to pay Microsoft Corporation a fee equal to 17% of its operating income. Upon repayment of the loan in full, in accordance with the terms of the portal agreement, profits resulting from the operation of the MSN Israel portal will be divided 50.1% to Smile.Media and 49.9% to Microsoft Corporation and Smile.Media will continue to consolidate the operations of MSN Israel into its financial statements.

Under the terms of the agreements we entered into with Microsoft, Microsoft may terminate the agreements in the event we are in default of our obligations under such agreements and may terminate the portal agreement with or without cause upon 90 days written notice and may terminate the shareholders and brand license agreement with or without cause upon 60 days written notice. In the event the portal agreement is terminated, Smile.Media would be required to remove the MSN Israel portal from the Internet, would lose all revenue derived from MSN Israel and Smile.Media s business would be adversely affected. In the event the shareholders and brand license agreement is terminated prior to the repayment of the MSN Israel loan, the remaining balance of the loan would not be repaid. The termination of the MSN Israel agreements would have a material adverse effect on Smile.Media s results of operations and financial position, including its ability to continue as a going concern.

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

Smile.Media faces significant competition in every aspect of its business, principally from Google, Walla Communications Ltd., Ynet, Tapuz and Nana, which have aggregated a variety of Internet content, eCommerce services and relevant advertising services. Some of Smile.Media s competitors have longer operating histories and more established relationships with customers as well as more resources than we do. Smile.Media 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 Smile.Media s competitors may also have a greater ability to attract and retain users than we do because they operate larger Internet properties with a broader range of content, products and services.

In addition, some of the portals and websites that Smile.Media competes with may be operated by Internet service providers, other than 012 Smile.Com. Because users need to access the Internet through Internet service providers, or ISPs, users have direct relationships with these providers. If an ISP or, for that matter, a computer or computing device manufacturer offers online services that compete with Smile.Media, the user may find it more convenient to use the services of the ISP or manufacturer. Also, because the ISP gathers information from the user in connection with the establishment of a billing relationship, the ISP may be more effective than we are in tailoring services and advertisements to the specific tastes of the user.

Smile.Media s operating results are likely to fluctuate significantly and may cause our share price to be volatile, which could impair our ability to meet our obligations under the Debentures.

Smile.Media s operating results are likely to fluctuate significantly on a quarterly and annual basis as a result of a number of factors, many of which are outside of its control. Some of the factors that may cause these fluctuations include the following:

- Smile.Media s ability to continue to attract users to its websites;
- The generation of revenue from traffic on Smile.Media s websites;
- The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of Smile.Media s businesses (including new websites, projects and services), operations and infrastructure;
- Smile.Media s ability to effectively integrate newly acquired Internet properties or marketing relationships for third-party content;
- General economic conditions and those economic conditions specific to the Internet, online advertising and eCommerce;
- Smile.Media s ability to keep its websites operational at a reasonable cost and without service interruptions; and
- Geopolitical events such as war, threat of war or terrorist actions.

For these reasons, comparing Smile.Media s operating results on a period-to-period basis may not be meaningful, and its past results may not be indicative of its future performance.

Smile.Media generates the majority of its revenue from online advertising, and the reduction in spending by or loss of current or potential advertisers would cause its revenue and operating results to decline.

For the years ended December 31, 2004, 2005 and 2006, our media division generated approximately 68%, 70% and 77% of its total revenue, respectively, from its advertisers. Smile.Media s ability to continue to retain and grow its advertising revenue depends upon:

- Its ability to maintain current users and continue to attract new users to its websites;
- Its ability to offer advertisers a diverse range of vertically and demographically targeted audiences;
- Its ability to successfully evolve its advertising formats to those preferred by advertisers, such as the emergence of lead generation and pay-per-click, which includes self-service paid search;
- Widening the continued acceptance of the Internet as an advertising medium by advertisers;
- Broadening its relationships with advertising agencies and small and medium-size advertisers; and
- Attracting advertisers to its user base.

In many cases, Smile.Media s advertisers can terminate their contracts with Smile.Media 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. For example, in the late 1990s, advertisers began to spend heavily on online advertising, however, this growth in online advertising was followed by a lengthy downturn in such spending. Advertisers will not continue to do business with Smile.Media if their advertisements on Smile.Media s websites do not generate sales leads, and ultimately customers, or if Smile.Media does not deliver their advertisements in an appropriate and effective manner. If Smile.Media 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.

Acquisitions and strategic investments could result in operating difficulties and unanticipated liabilities.

We made several strategic investments related to Smile.Media in 2005 and 2006 and have recently made a strategic investment in LMT.co.il, a last minute travel portal. Smile.Media expects to pursue additional investments and acquisitions in the future. These and future investments and acquisitions may result in dilutive issuances of equity securities, use of cash resources, incurrence of debt and amortization of expenses related to intangible assets. The successful integration of these and future acquisitions into Smile.Media s business faces a number of risks, including:

- Difficulty of assimilating the operations and personnel of newly acquired companies and business units into our operations;

- Potential disruption of Smile.Media s ongoing business and distraction to management;
- Difficulty of integrating acquired technology and rights into existing services and unanticipated expenses related to such integration;
- Failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- Potential for patent and trademark infringement claims against the acquired company;
- Impairment of relationships with customers and partners of the acquired companies or existing customers and partners as a result of the integration of acquired operations;
- Impairment of relationships with employees of the acquired companies or current employees as a result of integration of new management personnel;
- Difficulty of integrating the acquired company s accounting, management information, human resources and other administrative systems; and
- Impact of known potential liabilities or unknown liabilities associated with the acquired companies.

Any failure in addressing these risks or other problems encountered in connection with past or future acquisitions could cause us to fail to realize the anticipated benefits of our acquisitions, incur unanticipated liabilities and harm our business generally.

If Smile.Media fails to successfully develop and introduce new products and services, or is unable to develop, license or acquire compelling content at reasonable costs, its competitive position and ability to retain and attract users to its websites may be harmed.

Smile.Media s future success depends in part upon its ability to retain and attract new users to its websites by offering compelling content and new products and services. Smile.Media is continuously developing new products and services for its users and developing or acquiring compelling content. The planned timing or introduction of new products and services is subject to risks and uncertainties. Unexpected technical, operational, distributional or other problems could delay or prevent the introduction of one or more new products or services. Moreover, Smile.Media cannot be sure that any of its new products and services will achieve widespread market acceptance or generate incremental revenue.

Most of Smile.Media s Internet properties license much of the content on their properties from third parties. Such content may require substantial payments to third parties from whom Smile.Media s Internet properties license or acquire such content. Smile.Media s ability to maintain and build relationships with third-party content providers will be critical to its success. In addition, as new methods for accessing the Internet become available, including through mobile devices, Smile.Media may need to enter into amended content agreements with existing third-party content providers to cover the new devices. Also, to the extent that Smile.Media develops content of its own, current and potential third-party content providers may view such services as competitive with their own, and this may adversely affect their willingness to license their content to Smile.Media or to its Internet properties. Smile.Media may be unable to enter into new, or preserve existing, relationships with the third parties whose content is sought. In addition, as competition for compelling content increases both domestically and internationally, Smile.Media s content providers may increase the prices at which they offer their content to it, and potential content providers may not offer their content on agreeable terms. Further, many of Smile.Media s content licenses with third parties are non-exclusive. Accordingly, other websites and other media such as radio or television may be able to offer similar or identical content.

If Smile.Media is unable to license or acquire compelling content at reasonable prices, if other companies broadcast content that is similar to or the same as that provided by it, if it does not develop compelling editorial content or personalization services, or it fails to successfully develop and introduce new products and services on a timely and efficient basis, the number of users of its services may not grow as anticipated, or may decline, which could harm our operating results.

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

Smile.Media 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 Smile.Media 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. Smile.Media is especially 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. Smile.Media s defense of any such actions could be costly and involve significant time and attention of its management and other resources. Smile.Media generally does not exercise editorial control over the content appearing on websites that its users may be directed to from Smile.Media s websites and may be subject to claims that it has not exercised sufficient control over such content. In the event that Smile.Media 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.

Smile.Media also generally enters into arrangements to offer third-party products, services, or content on its websites and portals. Smile.Media 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 Smile.Media will be indemnified against such liabilities, such indemnification may not be adequate.

It is also possible that if any information provided directly by Smile.Media contains errors or is otherwise negligently provided to users, third parties could make claims against it. For example, Smile.Media 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.

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect Smile.Media s business.

Local and international laws and regulations may govern the collection, use, sharing and security of data that Smile.Media receives from its users and partners. In addition, Smile.Media has and 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 Smile.Media to comply with it 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 Smile.Media 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 Smile.Media and ultimately in a loss of users, partners or advertisers, which could adversely affect our business.

There are a number of legislative proposals pending before various legislative bodies in Israel concerning privacy issues which may affect Smile.Media s business. It is not possible to predict whether or when such legislation may be adopted. Certain legislation, if adopted, could impose requirements that may result in a decrease in Smile.Media s user traffic and revenue. In addition, the interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and inconsistently with Smile.Media s current data protection policies and practices. Complying with these varying international requirements could cause Smile.Media to incur substantial costs or require Smile.Media to change its business practices in a manner adverse to our business.

Risks Related to the Debentures

We have substantial debt. The principal and interest payment obligations of such debt may restrict our future operations and impair our ability to meet our obligations under the Debentures. Despite our current leverage, we may still be able to incur substantially more debt, which could further exacerbate these risks.

As of June, 30 2007, we had approximately NIS 793.2 million of debt including NIS 241.4 million of bank debt on our consolidated balance sheet, none of which was secured. Our substantial indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the Debentures;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

Our ability to satisfy our debt obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategy.

In addition from time to time, we may incur additional indebtedness. If we issue additional debt or incur other indebtedness our existing holders of Debentures proportionate share in an event of bankruptcy or liquidation will be reduced. Further, there may be more creditors pursuing our assets if we default or become bankrupt. Thus, our assets would be subject to the claims of additional creditors.

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

Furthermore, cash flows from our operations may be insufficient to repay the Debentures in full at maturity. Our ability to refinance our indebtedness, including the Debentures, will depend on, among other things: our financial condition at the time; restrictions in agreements governing our debt and; other factors, including market conditions.

We cannot assure you that any such refinancing would be obtainable or would be on terms satisfactory to us. If a refinancing will not be possible or if additional financing will not be available, we may have to sell our assets under circumstances that might not yield the highest prices, or default on our debt obligations, including the Debentures, which would permit the holders of our Debentures to accelerate their maturity dates. In the event of the acceleration of the maturity dates, we cannot assure you that the Company will be able to repay the Debentures.

The Debentures will be effectively subordinated to our future secured debt and other secured obligations.

Our obligations under the Debentures are unsecured, but our obligations under future debt could be secured by a security interest in substantially all of our tangible and intangible assets. If we are declared bankrupt or insolvent, or default under future secured debt obligations, the lenders thereunder could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we are unable to repay such future secured indebtedness, the lenders of the secured debt could foreclose on the pledged assets to the exclusion of holders of the Debentures, even if an event of default exists at such time under the indenture under which the Debentures are issued. In any such event, because the Debentures will not be secured by any of our assets, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to satisfy your claims fully.

There has been no prior public market for the Debentures and we cannot assure you that a liquid market will develop for the Debentures.

Prior to the sale of the Debentures offered by this Prospectus, there has been no public market for any of the Debentures and we cannot assure you as to:

- the development of or continuation such a market;
- the liquidity of any such market that may develop;
- your ability to sell your Debentures; or
- the price at which you would be able to sell your Debentures.

In such a market, the Debentures could trade at prices that may be higher or lower than the initial Offering price, depending on many factors, including some beyond our control such as prevailing interest rates, the market for similar securities and our financial performance, financial condition or results of operations.

Risks Related to Our Operations in Israel

We conduct our operations in Israel and our business focuses on the Israeli audience, therefore our results of operation may be adversely affected by political, economic and military instability in Israel.

We are incorporated under the laws of, and our principal executive offices and employees are located in, the State of Israel. As a result, the 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.

Political, economic and military instability in Israel may disrupt our operations and negatively affect our sales.

We are incorporated, based in and currently derive substantially all of our revenues from markets within the State of Israel. As a result, the 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. There has been an increase in unrest and terrorist activity in Israel, which began in September 2000 and which has continued with varying levels of severity through 2007. The future effect of this deterioration and violence on the Israeli economy and our operations is unclear. The election of representatives of the Hamas movement to a majority of seats in the Palestinian Legislative Council in January 2006 resulted in an escalation in violence among Israel, the Palestinian Authority and other groups. In July 2006, extensive hostilities began along Israel s northern border with Lebanon and to a lesser extent in the Gaza Strip. In June 2007, there was an escalation in violence in the Gaza Strip resulting in Hamas effectively controlling the Gaza Strip. 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 our business, financial conditions and results of operations.

Our businesses may be impacted by NIS exchange rate fluctuations.

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

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

Our operating results may be adversely affected if inflation in Israel is not offset on a timely basis by a devaluation of the NIS against the foreign currencies to which we are exposed, by our currency hedging position and by changes in the Israeli Consumer Price Index.

Some of 012 Smile.Com s purchases of international bandwidth and other international agreements expose us to fluctuations in foreign currencies, principally the U.S. dollar. Most of our sales are denominated in NIS. When the Israeli inflation rate exceeds the rate of the NIS devaluation against foreign currencies, our NIS expenses will 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.

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 balance sheet 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 a foreign exchange derivative instrument designated as a cash flow hedge, the effective portion of the derivative instrument is initially reported as a component of our shareholders equity and subsequently recognized in our income statement as the hedged item affects earnings. 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 (Series A) 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.

We may be restricted in the conduct of our operations during periods of national emergency.

During periods of national emergency, the Israeli government may take control of 012 Smile.Com s network, and it may be ordered by the Prime Ministry of Israel to provide services to security forces. In addition, the Israeli Equipment Registration and IDF Mobilization Law, 1987 permit the registration, taking and use of engineering equipment and facilities by Israel s Defense Forces. This law further sets the payment for use and compensation for damages caused to the operator as a result of such taking.

Further, The Communications Law grants the Prime Minister of Israel the authority, for reasons of state security or public welfare, to order a telecommunications license holder to provide services to security forces, to perform telecommunication activities or to establish a telecommunications facility as may be required for the security forces to carry out their duties.

If national emergency situations arise in the future and if we are to be subject during such time to any of the foregoing actions, this could adversely affect our ability to operate our business and provide services during such national emergencies and adversely affect our business operations.

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

Generally, all non-exempt male adult citizens and permanent residents of Israel under the age of 45, including many of our executive officers and employees in Israel, are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

7. RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for the six months ended June 30, 2007 and each of the five years in the period ended December 31, 2006 is set forth below.

	[Six months ended June 30, 2007]	Year ended December 31,				
		2006	2005	2004	2003	2002
			(in thousands)			
Ratio of Earnings to Fixed Charges Under Israeli-GAAP						
Pre-tax earnings from continuing operations	37,976	27,985	19,732	24,389	17,643	*28,568*
Fixed charges	29,623	7,450	21,938	1,580	878	*1,535*
Company s share in net loss , (income) of investees	(1)	(334)	-	(396)	(1,538)	*(1,530)*
Minority interest in loss of a subsidiary	26	(34)	-	-	-	-
Adjusted pre- tax earnings from continuing operations	***67,624***	***35,067***	***41,670***	***25,573***	***16,983***	***28,573***
Fixed charges						
Interest charges (1)	27,083	4,960	19,303	38	(350)	719
Rental interest factor (2)	2,531	2,468	2,635	1,447	1,053	808
Interest expenses for equity companies whose debt is guaranteed	9	22		95	175	8
Total	29,623	7,450	21,938	1,580	878	1,535
Ratio of earnings to fixed charges	**2.28**	**4.71**	**1.90**	**16.19**	**19.34**	**18.61**

(1) Interest expenses, amortization of discount and adjustment of long-term loan and leases.

(2) Rental interest factor is estimated out of total lease expenses.

	[Six months ended June 30, 2007]	Year ended December 31,				
		2006	2005	2004	2003	2002
		(in thousands)				
Ratio of Earnings to Fixed Charges Under US-GAAP						
Pre- tax earnings from continuing operations	37,976	12,740	19,732	23,550	14,735	24,633
Fixed charges	29,623	7,129	21,938	1,681	1,081	1,545
Company s share in net loss of investstee companies	(1)	(334)	-	-	-	-
Minority interest in loss of a subsidiary	26	(34)		3,312	2,204	2,418
Adjusted pre-tax earnings from continuing operations	67,624	**19,501**	**41,670**	**28,543**	**18,020**	**28,596**
Fixed charges						
Interest charges (1)	27,083	4,222	19,303	234	28	737
Rental interest factor (2)	2,531	2,885	2,635	1,447	1,053	808
Interest expenses for equity companies whose debt is guaranteed	9	22		-	-	-
Total	29,623	7,129	21,938	1,681	1,081	1,545
Ratio of earning to fixed charges	**2.28**	**2.74**	**1.90**	**16.98**	**16.67**	**18.51**

(1) Interest expenses ,amortization of discount and adjustment of long-term loan and leases.

(2) Rental interest factor is estimated out of total lease expenses.

8. USE OF PROCEEDS

The net proceeds that we will receive from this Offering are estimated to be NIS 400,833,000 (US$ 98,727,000) after deduction of the underwriters fees and commissions and the estimated expenses of the Offering.

We intend to use the net proceeds from the Offering for general corporate purposes, as shall be from time to time determined by our board of directors. We have explored and will continue to explore business opportunities and potential investments. We currently have no plans, proposals or arrangements with respect to any such business opportunity or potential invest.

Chapter 9: The Public Offering

9.1 <u>The Securities Offered to the Public</u>

9.1.1 423,000,000 registered Debentures (Series B), NIS 1.00 par value each, are offered under this Prospectus at a minimum price of 97% of their par value (i.e., 97 agorot for every NIS 1.00 par value of Debentures (Series B)). The Debentures (series B) are repayable in 6 equal annual installments on November 1st of each of the years 2010 to 2015 (inclusive). In other words, on November 1st of each of the years 2010 to 2015, the Company will pay up 16.666% of the principal of the par value of the Debentures (Series B) that are still in circulation, plus indexation to the CPI, as detailed in Paragraph 10.1.4 below. The principal of the Debentures (Series B) and the interest accruing thereupon, shall be indexed to the CPI published with respect to the month of August 2007 (see Section 10.1.4 hereto).

The Debentures (Series B) bear interest of 5% per annum as of the first business day after the closing of the subscription. The interest on the unpaid balance of the Debentures (Series B) shall be paid in equal annual installments, on November 1st of each of the years 2010 to 2015 (inclusive, with respect to the period ended on the last day before such date. The first installment of the interest shall be paid on November 1st, 2008, with respect to the period starting on the first business day after the closing of subscriptions, and ending on October 31, 20008. The last installment of the interest accruing on the Debentures (Series B) shall be paid on November 1st, 2015, together with the payment of the balance of the principal of the Debentures (Series B) in circulation and against the surrender of the Debentures (Series B) certificates to the Company.

9.2 <u>The Public Offering</u>

423,000,000 Debentures (Series B) are offered to the public in 423,000 units (the **Units**) in a tender for the Unit price. The Units shall be offered at a price not less than NIS 970 per Unit (**Minimum Price** **).**

Each Unit will be composed as following:

1,000 Debentures (Series B) at a Minimum Price of 97% of their par value.	NIS 970
Total Minimum Price per Unit	NIS 970

The tender shall be held on September 25, 2007.

The Company shall not issue a complementary notice (*hoda a mashlima*), as defined in the Securities Regulations (Complementary Notice and Draft Prospectus) 2007, regarding any amendment to the offered securities, including their price and number of Debentures (Series B) offered, as compared to the terms set forth in the prospectus.

The Company may make an additional issuance to Classified Investors, as defined herein, and/or to the general public, in accordance with the Securities Regulations (Method of Public Offering) - 2007 (the **Offering Regulations**).

9.2.1 **Tender Provisions**

9.2.1.1 **Subscriptions List**

Subscription for the Units offered to the public shall begin on September 25, 2007 at 4:30 p.m. (the **Tender Day**) and shall close at 5:30 p.m. that same day (the **Subscription Closing Time**).

9.2.1.2 Subscription

Subscriptions for the purchase of Units offered to the public by tender shall be made to the Company on forms that can be obtained from members of the TASE, through the dealer manager, Poalim IBI Ltd. (the **Dealer Manager**), or at any bank or from other members of the TASE authorized dealers, no later than 5:30 p.m. on the day of the tender. Subscriptions received by the authorized dealers after 5:30 p.m. on the day of the tender, shall not be accepted by the Company and shall be deemed not to have been submitted. Subscriptions shall be submitted by the authorized dealers to the Dealer Manager no later than 6:30 p.m. on the day of the tender. Subscriptions received by the Dealer Manager after 6:30 p.m. on the day of the tender, shall not be accepted by the Company and shall be deemed not to have been submitted.

9.2.1.3 Subscriptions shall be made in accordance with the following terms:

(1) The subscriber shall note in its subscription the number of Units for which it is subscribing, and the price it is offering, which shall not be lower than the Minimum Price. Subscriptions fixing a price lower than the Minimum Price shall be deemed not to have been submitted.

(2) Subscriptions shall be for whole numbers of Units and for at least one Unit each. A subscription for a fractional number of Units shall be rounded down to the nearest whole number, and the fractional Unit shall be deemed not to have been subscribed for. A subscription for a number of Units smaller than one, shall not be accepted.

(3) The Unit prices offered in the tender shall be in intervals of NIS 1 or multiples thereof, such that the lowest price above the Minimum Price at which Units may be subscribed for shall be NIS 971, followed by NIS 972, NIS 973, NIS 974, etc. A subscription that does not designate prices in figures divisible by 1 shekel units, shall be rounded down to the closest whole number.

(4) Subscriptions are irrevocable. Each subscriber shall be deemed to have, by subscribing, assumed the obligation to accept the securities issuable pursuant to full or partial compliance with its subscription in accordance with the terms of this prospectus, and to pay, through the Dealer Manager, the full price, in accordance with the terms of the prospectus, for the Units issued to it in accordance with its subscription.

(5) Submission of subscriptions by the authorized dealers for their clients and by the Dealer Manger for its clients, shall be deemed the assumption of an obligation by them to be held liable toward the Company, the Dealer Manager and the underwriters, as applicable, for payment in full of the proceeds owing to the Company in accordance with the terms of the prospectus with respect to such subscriptions made through them and which are fully or partially complied with by the Company.

(6) A subscriber shall, for the purposes of this prospectus, also include a relative living with the subscriber and a Classified Investor with which the Company has engaged for the purpose of purchasing Units hereunder, in accordance with Section 9.8 below.

9.2.2 Fixing the issuance price by tender and issuance of Units to subscribers

All Units issued with respect to subscriptions, including subscriptions by classified investors as set forth in Section 9.8 herein, shall be issued at the same price.

Selling Price the highest price fixed in subscriptions for the purchase of all of the securities offered under the prospectus; in the event of undersubscription - the Minimum Price fixed in the offer;

Distributable Amount the number of securities offered under the prospectus, less the number of securities subscribed for at a price exceeding the Selling Price;

The offering under this prospectus shall be by way of a standard offer, as detailed in the Securities Regulations (Method of Public Offering) - 2007 (the Offering Regulations), at a Selling Price that will be fixed by tender, as follows:

9.2.2.1 In a uniform offer, each subscriber may submit subscriptions quoting different prices, provided that no more than three different prices are quoted by a single subscriber.

9.2.2.2 Issuance of Units by tender shall be as follows:

(1) Subscriptions quoting a Unit price lower than the Selling Price shall not be complied with.

(2) Subscribers that quoted a price higher than the Selling Price shall be issued all of the securities for which they have subscribed.

(3) Subscribers that quoted the Selling Price shall be issued such number of securities out of the Distributable Amount, according to their prorated share out of all of the subscriptions quoting the same price, less the share of classified investors as set forth in Section 9.8 herewith.

(4) Notwithstanding the above, in the event that such issuance shall prevent a minimum spread of the Debentures (Series B), as defined in Section 9.4.2 herein, issuance shall be effected in accordance with sub-sections (1)-(3) above, but Units to classified investors that quoted the Selling Price shall be issued pari passu with the issuance to the public.

(5) Notwithstanding the provisions of subsection (3) above, should it transpire, after the processing of the results as mentioned above, that the minimum spread as required in Section 9.4.2 is not met, the Company shall issue to each subscriber (including classified investors) that quoted the Selling Price or a price higher than the Selling price, a prorated share of its subscription, equal to the product of (i) all of the Units offered to the public; and (ii) the ratio of the number of Units subscribed for by such subscriber and the overall number of Units subscribed for, including by classified investors, at the Selling Price or at any higher price.

(6) Notwithstanding the above, in the event that issuance in accordance with subsection (4) above would also not accomplish a minimum spread as defined in Section 9.4.2, issuance of Units shall be as follows:

Units shall be reallocated, including to classified investors, for the purpose of fixing a new Selling Price, such that the new Selling Price shall be the highest Unit Price at which all of the securities offered under this prospectus can be issued such as to satisfy the minimum spread requirements under Section 9.4.2 hereof (the **New Selling Price**), provided, however, that subscribers at a given price shall not be issued a larger percentage of shares of their subscription, than subscribers that quoted a higher price. In an issuance at the New Selling price in accordance with subsection (4) above, the New Selling Price shall be considered the Unit Selling Price. Subscriptions that quoted a Unit price lower than the New Selling Price, shall not be accepted.

(7) In the event that a minimum spread of the Debentures (Series B) in accordance with Section 9.4.2 herein is not obtained by such reprocessing as provided for in subsection (5) above, the offered securities shall not be registered. In such event, the offered securities shall not be issued to the public, no money will be collected from subscribers and the issuance under this prospectus shall be canceled.

(8) In any event in which the implementation of any of the methods of issuance detailed above requires the issuance of fractional Units, the issuance shall be adjusted such that the number of Units issued to each subscriber shall be rounded to the closest whole number. Any surplus created due to such rounding up or down, shall be issued to the Dealer Manager at the Selling Price or at the New Selling Price, as the case may be.

(9) Related parties of the Company have covenanted not to subscribe for the Units offered to the public by tender.

(10) Units that are not purchased by tender, less Units for which early subscription has been made by classified investors, shall be purchased by the underwriters at the Minimum Price.

9.2.3 **Special Account**

9.2.3.1 Shortly before the Tender Day, the Dealer Manager shall open a special, interest-bearing trust account for the Company, with the Dealer Manager or with any other bank (the **Special Account**). The Dealer Manager shall manage the Special Account in the name and on behalf of the Company, in accordance with the Securities Law 1968.

9.2.3.2 The Dealer Manager shall, immediately upon their receipt, transfer to the Special Account all the money it shall receive in consideration of the offered Units. So long as the proceeds of the issuance have not been transferred to the Company, such money shall, to the extent possible, be deposited in liquid, unindexed deposits that bear interest on a daily basis.

9.2.3.3 On the second business day following the Tender Day, the authorized dealers through which subscriptions that have been fully or partially granted were submitted, shall, by 12:30 p.m., deposit in the Special Account all of the consideration owing from for the Units issued with respect to such subscriptions in accordance with the provisions of Section 9.2.2 above.

9.2.3.4 In the event that after the subscription for the securities offered under this prospectus is closed, it transpires that all of the offered Units have been purchased and the minimum spread and minimum value of holdings by the public have been met in accordance with Section 9.4.2 herein, the Dealer Manager shall, no later than the end of the second business day following the Tender Day, and after receipt of the certificates of Debentures (Series B) in accordance with Section 9.3 for the nominee company of Bank Hapoalim Ltd. (the **Nominee Company**), all of the amounts received in the Special Account, plus any interest accrued thereupon and less the amounts payable under the underwriting agreement, which shall be paid to the eligible entities under the underwriting agreement as set forth in Chapter 15 hereof, subject to their compliance with their obligations under the subscription agreement.

9.2.3.5 If it transpires that the minimum spread and minimum value of holdings by the public in accordance with Section 9.4.2 herein have not been met, the issuance under this prospectus shall be canceled, the offered securities shall not be registered and money shall not be collected from subscribers.

9.2.4 Tender Proceedings

Subscriptions shall be transferred, through the authorized dealers, to the Dealer Manager by 6:30 p.m. on the Tender Day, in closed envelopes, which will remain closed until the subscription closes, and shall be placed in a sealed box by the Dealer Manager together with the subscriptions submitted to the Dealer Manager directly.

After 5 p.m. on the Tender Day, the box will be opened and the envelopes will be opened in the presence of a representative of the underwriters and of the Company s auditor, who will make sure that due process is maintained, and the tender results will be processed and summarized.

Advisors to the issuance, Eurocom Capital Underwriting Ltd. (see Section 15.6.11) and the Company have covenanted not to examine, directly or indirectly, the identity of tender subscribers or the number of securities subscribed for by each subscriber. Eurocom Capital Underwriting Ltd. has also covenanted not to be in contact with Classified Investors on the Tender Day.

9.2.5 Tender Results

9.2.5.1 By 10 a.m. on the first business day following the Tender Day, the Dealer Manager shall, through the authorized dealers that submitted subscriptions for the tender, deliver notices to subscribers whose subscriptions have been fully or partially granted, informing them of the Unit price fixed by tender, the number of Units that will be issued to each and the consideration payable for such Units. Upon and by 12:30 p.m. on the day on which they receive the notice, subscribers shall, through the authorized dealers, transfer to the Dealer Manager the full consideration owing from them with respect to Units authorized for issuance to them in accordance with their subscriptions.

9.2.5.2 On the first business day following the Tender Day, the Company shall issue an immediate report to the TASE and the Israel Securities Authority of the tender results, and within two business days thereafter, shall publish a notice of the tender results in two widely-circulated Hebrew-language newspapers in Israel.

9.3 Debentures (Series B) Certificates

The Company shall, with respect to all the subscriptions that re approved and paid for in full, transfer to the Nominee Company certificates for the Debentures (Series B) issued for such subscriptions. Such Debentures (Series B) certificates shall be delivered to the Nominee Company no later than the second business day following the Tender Day, provided, however, that the issuance shall not take place before the Dealer Manager is content that the minimum spread and minimum value of holdings by the public have been satisfied, in accordance with Section 9.4.2 hereof.

Debentures (Series B) certificates can be transferred, split and waived in favor of third parties, subject to the creation of a written deed to this effect and the delivery of such deed, together with the certificates, to the Company, and to payment of the applicant of any expenses, taxes and levies in connection therewith.

9.4 Registration on the TASE

9.4.1 The Debentures (Series B) are intended to be registered on the TASE, and the TASE has, in principle approved their registration. Within three business days from the Tender Day, the Company shall apply to the TASE to register these securities.

Registration of the securities on the TASE is conditioned upon a minimum spread of the Debentures (Series B) and on minimum holdings by the public, all as further detailed in Section 9.4.2 herein.

9.4.2 **Minimum Spread; Holdings by the Public**

In accordance with the rules of the TASE, the following provisions with respect to minimum spread shall apply to the Debentures (Series B) offered to the public under this prospectus:

Securities	Minimum No. of Holders	Minimum Value of Holdings per Holder
DBS	35	NIS 200,000

Holder is a single holder that holds holdings whose values exceed the minimum value of holdings per holder as fixed above, or a joint holder, provided that the joint holdings, in the aggregate, of such joint holder and its joint holders exceed the minimum value of holdings per holder as fixed above.

Registration is also conditioned on holdings by the public of a minimum value of NIS 36,000,000 of Debentures (Series B).

9.5 Prohibited Arrangements

9.5.1 By signing this prospectus, the Company, the directors and the underwriters covenant that they shall not enter any arrangements other than those set forth in this prospectus in connection with the securities or with their distribution to the public, and that they shall not permit the purchasers of securities under the prospectus to sell their securities except in accordance with the provisions of the prospectus.

9.5.2 By signing this prospectus, the Company and the underwriters covenant to notify the Israel Securities Authority of any arrangement with a third party that comes to their knowledge which is in violation of the provisions of Section 9.5.1 above.

9.5.3 By signing this prospectus, the Company, the directors and the underwriters covenant not to engage with any third party that to the best of their knowledge has entered arrangements in violation of Section 9.5 above.

9.5.4 The Company has, upon publication of this prospectus, submitted to the Israel Securities Authority a written undertaking by its related parties, whereby such related parties covenant to comply with the provisions of Sections 9.5.1 and 9.5.2 above.

9.5.5 The Company, the directors and the underwriters shall not accept subscriptions for securities in this issuance from any distributor that fails to submit a written undertaking to comply with the provisions of this Section. The Company and the underwriters shall submit to the Israel Securities Authority copies of the undertakings of the authorized dealers as mentioned above.

9.6 Antidilution Protection

As of the publication of this prospectus and until the issuance of securities hereunder, the Company shall not perform any transaction that would cause dilution of its share capital, as this term is defined in the Securities Regulations (Details, Structure and Form of the Prospectus) - 1969.

9.7 Tax

On July 25, 2005, the Knesset adopted the Law Amending the Income Tax Ordinance (147) - 2005 (the **Amendment**). The Amendment was published in the official gazette (Rashumot) on August 10, 2005, and entered into effect on January 1, 2006. The Amendment materially changes the provisions of the Income Tax Ordinance [New Version] 1961 (the **Ordinance**) with respect to taxation of securities. Also, upon publication of the prospectus, some of the new regulations promulgated under the Amendment have not yet been published. Further, upon publication of the prospectus, there is as yet no common practice regarding some of the provisions of the Amendment, nor is there case law interpreting the provisions of the Amendment.

Under current law, the Debentures (Series B) offered to the public are subject to certain tax arrangements as briefly described below:

Capital Gains Tax

Under Section 91 of the Income Tax Ordinance and the Amendment, upon sale and/or redemption of the securities, a group of persons shall be taxable at 25% on any real capital gains; however, with respect to capital gains that accrued between the years 2006-2009 to a group of persons to which the provisions of the Income Tax Law (Adjustments for Inflation) 1985 or the provisions of Section 130A of the Income Tax Ordinance applied before publication of the Amendment, shall be taxed at the rate fixed in Section 126(a) of the Income Tax Ordinance (in 2007 - 29%, in 2008 - 27%, in 20009 - 26%, and from 2010 onward - 25%).

Under Section 91 of the Income Tax Ordinance, real capital gains generated on the sale of securities (including redemption) by an individual who is a resident of Israel and for whom such income does not constitute business income , shall be subject to tax not to exceed 20%, and the capital gain shall be taxed at the highest bracket applicable to his taxable income.

Notwithstanding the above, real capital gains on the sale of securities issued by a group of persons, in the event that the seller is an individual who is a material shareholder as defined in Section 88 of the Ordinance, upon such sale or was a material shareholder at any time during the 12 months preceding the sale, shall be subject to tax not to exceed 25%.

A material shareholder is defined in Section 88 of the Income Tax Ordinance as a person that holds, directly or indirectly, alone or together with others, at least 10% of any type of the means of control in the group of persons. The term together with others shall mean together with a relative or together with a person with whom the material shareholder directly or indirectly cooperates on an ongoing basis under an agreement with respect to material matters of the group of persons.

In addition to the foregoing, it has been determined, under Section 101A(a)(9) of the Ordinance, that the Finance Minister may, subject to approval by the Finance Committee of the Knesset, stipulate instructions and conditions with respect to capital gains on the sale of securities, which, if satisfied, shall permit the deduction of real interest and indexation, fix the method for their calculation, limit the rate of real interest that may be deducted in case of a special relationship between the lender and borrower, and determine the evidence required in order to attribute the loan and real interest and indexation to the security. It has further been determined that under such instructions and conditions are fixed, taxpayers that claim real interest and indexation with respect to securities shall pay 25% tax on the capital gains arising from the sale of such securities.

Notwithstanding the above, an individual to whom the income from the sale of securities constitutes business income under the provisions of Section 2(1) of the Ordinance, shall pay tax on the profit generated on the sale of securities in accordance with the regular tax rate on the income of such individual, i.e., the tax bracket in accordance with Section 121 of the Ordinance (a maximum of 48% in 2007, of 47% in 2008, of 46% in 2009 and of 44% from 2010 onward).

Groups of persons that are exempt from tax under Section 9(2) of the Ordinance, provident funds and exempt mutual funds, are exempt from tax on any income generated on the sale of securities. A mutual fund shall be taxed at the same rate as an individual for whom the real profit generated on the sale of securities would not be deemed business income .

Foreign residents are exempt from payment of capital gains tax on the sale of securities, provided that the capital gain was not generated in the permanent establishment of such foreign resident in Israel.

A group of persons that is a foreign resident, shall not be eligible for this exemption if its controlling shareholders, beneficiaries, or persons entitled to 25% or more of the income or profit of such group of persons are Israeli residents.

In the event that such an exemption does not apply, the provisions of the tax treaty between Israel and the state of residence of the foreign resident shall apply (if any such treaty is in place and subject to approval by the tax authorities).

Tax deduction at source on capital gains

In accordance with the Income Tax Regulations (Withholding on Consideration, Payment or Capital Gains on the Sale of Securities, Units in Mutual Funds or Futures) (Amendment) - 2002, a taxpayer (as defined in these regulations) paying the seller a consideration for the sale of securities, shall withhold tax at 20% of the real capital gain if the seller is an individual, and at 25% if the seller is a group of persons. Such withholding shall be subject to any certification regarding exemption from tax withholding and to any permissible setoff of losses. Provident funds, mutual funds and other entities listed in the Addendum to the Income Tax Regulations (Withholding from Interest, Dividend and Certain Gains) - 2005 (**Interest Withholding Regulations**) are exempt from withholding tax, in accordance with the provisions of the law. Also, a bank or member of the TASE shall not withhold any tax from foreign residents, subject to certain conditions as set forth in the regulations. If upon the sale, no tax was withheld from the real capital gain, the provisions of Section 9(d) of the Ordinance regarding reporting and advance payments for such sales shall apply.

Taxation of Interest and Discount on the Debentures

In accordance with Section 125C of the Ordinance, an individual shall be taxed at no more than 20% on interest or on discount that constitute income under Section 2(4) of the Ordinance and which arose from debentures that are traded on the stock exchange and are fully indexed to the CPI, and such income shall be taxed at the highest tax bracket applicable to his taxable income

The foregoing tax rate shall apply subject to the following aggregate conditions: (1) the individual is not a material shareholder of a group of persons that pays the interest; (2) the individual did not claim recognition of his interest and indexation expenses with respect to the debentures; (3) the income on interest or discount does not, to such individual, constitute a business income under Section 2(1) of the Ordinance, the income is not recorded in his invoices and the law does not require it to be; (4) the individual is not employed by a group of persons that paid the interest, nor does he provide such group with services or sell it products, nor does he have any other special relationship with such group, unless the tax assessor is satisfied that the rate of interest was fixed in good faith and was not influenced by the existence of such relationship between such individual and group of persons; (5) no other condition stipulated by the Minister of Finance and approved by the Knesset Finance Committee has been met (as of the date of this prospectus, no further conditions have been published).

Interest or discount generated by an individual that does not satisfy the foregoing conditions, shall be taxed at the highest tax bracket applicable to the taxable income of such individual.

A group of persons to which the provisions of Section 9(2) of the Ordinance apply for the purpose of determination of income, except for the purpose of Section 3(h) of the Ordinance regarding interest accrued to another entity, shall be subject to corporate tax at the rate fixed in Section 126(a) of the Ordinance with respect to interest or discount arising from debentures.

A mutual fund that generates interest and discount on debentures, shall be taxed on such income at the rate applicable to an individual to whom such income would not constitute business income . An exempt mutual fund and other entities that are exempt from tax under Section 9(2) of the Ordinance, are exempt from tax on such interest or discount, all subject to Section 3(h) of the Ordinance regarding interest accruing to another entity.

Withholding tax on interest and discount

In accordance with the regulations on withholding tax on interest and in accordance with the Ordinance, the rate of tax deductible at source on interest arising from debentures to an individual that is not a material shareholder of the company that pays the interest, is 20%; for an individual who is a material shareholder or who is employed by, provides services to or sells products to the company shall be subject to withholding in accordance with the highest tax bracket fixed in Section 121 of the Ordinance; and for a group of persons the corporate tax rate fixed in Section 126(a) of the Ordinance. Notwithstanding the above, the rate of withholding tax in case of a foreign resident shall be as stipulated in the tax treaty between Israel and the state of residence of such foreign resident, and subject to certification from the relevant tax authority.

Provident funds, mutual funds and other entities listed in the addendum to the Interest Withholding Regulations, are exempt from tax deduction at source.

Taxation of discount on debentures

In accordance with Sections 2(4) and 125(c) of the Ordinance, any discount on debentures (if any such fees are generated) is treated as taxable interest that is subject to withholding tax.

The discount that will arise with respect to the Debentures (Series B) offered under this prospectus shall be based on the difference between the obligation under the Debentures (Series B) (i.e., the par value) and the proceeds of the issuance, and on the Unit price that will be fixed by tender, provided, however, that this is a positive number (the **Original Discount**). On the first day of trading, the Company shall issue an immediate report stating the discount (if any) on the debentures, calculated in accordance with the foregoing.

If additional Debentures (Series B) are issued in the future, a different discount shall be created from the one in effect on the date of such issuance, and there may also be no discount at all (the **New Discount**). Immediately prior to such issuance, the Company shall apply to the tax authorities to obtain their approval that for the purposes of withholding tax on the discount with respect to the debentures, a fixed discount shall be determined for all the Debentures (Series B), in accordance with a formula that weights the Original Discount and the New Discount (if any) (the **New Weighted Discount**), relative to the par value of the debentures.

Upon receipt of such approval, the Company shall calculate the New Weighted Discount for all of the debentures, and, before issuing additional Debentures (Series B), shall issue an immediate report regarding the New Weighted Discount for the series, and shall, upon redemption of the debentures from this series, withhold tax according to the New Weighted Discount and in accordance with the provisions of the law. If such approval is not obtained, the Company shall, immediately upon receiving notice to this effect, issue an immediate report that approval has been denied, and that the fixed discount for the series shall be the highest discount generated with respect to the debentures. The Company shall, upon redemption of debentures from this series, withhold tax according to the discount reported in accordance with the foregoing.

There may therefore be cases in which the Company shall withhold tax for a discount exceeding that which had been fixed for holders of the debentures before the later issuance. In such case, a taxpayer that held debentures before the later issuance and through to redemption, shall be entitled to file a tax return with the tax authorities, and to be reimbursed for the tax withheld on the discount, to the extent such taxpayer is entitled by law to such reimbursement.

Regulation 4 of the Income Tax Regulations (Calculation of Capital Gains on the Sale of Traded Securities, treasury bonds or Units in Mutual Funds) - 2002, provides that upon redemption of debentures traded on the TASE upon which a discount is also paid, the redemption proceeds shall be equal to the consideration plus the discount, provided that all of the following conditions are met: (1) the capital gain on the sale of the debenture is not exempt from tax; (2) a capital loss is generated upon redemption; and (3) the debenture is not redeemed by a controlling shareholder or by a person who held the debenture from the date of issuance or allocation, provided, however, that the overall amount recognized as proceeds in accordance with the foregoing shall not exceed the overall capital loss. The discount that shall be deemed proceeds under these provisions shall not be deemed income under Section 2(4) of the Income Tax Ordinance.

Offset of losses with respect to the debentures

A capital loss on the sale of debentures may be offset against real capital gains, in accordance with the principles stipulated in Section 92 of the Ordinance, whether such loss/gain was generated on an asset (including a traded security) in Israel or abroad.

A capital loss generated during the tax year on the sale of debentures may also be offset against interest income generated on such debentures during the same tax year, and against dividend income or interest on other securities generated during the same tax year, provided, however, that the tax rate applicable to such income does not exceed 25%.

Losses generated on the sale of debentures traded on the TASE in the tax years 2003 through 2005, which may be carried over to following years, and with respect to which no tax has been offset as of January 1, 2006 (**Commencement Date**) in accordance with Section 105(o) of the Ordinance, as such Section was in effect before it was canceled in Amendment 147, may be offset as of the tax year of 2007 against profits on the sale of the debentures and against interest generated on the debentures and against interest and dividend generated on other securities, provided however that the tax rate applicable to such interest or dividend generated by the taxpayer seeking such offset, does not exceed 20%. Losses generated on the sale of the debentures in the tax years 2003 through 2005, which may be carried over to following years, and with respect to which no tax has been offset as of January 1, 2006 in accordance with Section 105(o) of the Ordinance, as such Section was in effect before it was canceled in Amendment 147, but which generated from securities that were sold prior to the Commencement Date and which, on the day before the Commencement Date were considered foreign securities under the definition in Section 105K of the Ordinance, as such Section was in effect before it was canceled in Amendment 147, may be offset as of the tax year of 2007 against profit and interest generated on the debentures and against interest and dividend generated on other securities, provided however that the tax rate applicable to such interest or dividend generated by the taxpayer seeking such offset, does not exceed 20%.

A real loss on securities, as defined in Section 6 of the Adjustment Law (as it was in effect before it was canceled in Amendment 147), which was generated before the Commencement Date and was not offset before it, and which may, under the provisions of the aforementioned Section 6, be offset, may be offset against the real capital gain generated on the sale of the securities.

As is always the case in investment decisions, and in particular in light of the foregoing, investors are advised to consider the tax implications of any investment in the offered securities. The foregoing description, and any information provided in this prospectus in general, is not an authoritative interpretation of the provisions of the law referenced herein nor is it a comprehensive description of the tax provisions applicable to the offered securities, and does not substitute professional advice on such matters, which should be sought based on the specific circumstances of each investor.

9.8 Classified Investors

9.8.1 360,700 Units (85.27%) out of those offered to the public, are offered, in accordance with the terms hereof, to classified investors, whose names are provided in the table in Section 9.8.10 hereof (the **Classified Investors**) under a prior agreement with such Classified Investors (the **Prior Agreement**). The prior commitment by Classified Investors before publication of this prospectus and the issuance to such Classified Investors, are made in accordance with the principles set forth in the Securities Regulations (Method of Public Offering) 2007 (**Offering Regulations**).

9.8.2 A Classified Investor is an entity that committed to purchase in a public offering securities with a par value of at least NIS 800,000, provided that such entity is among the entities included in the Addendum under Section 15A(b)(1) of the Securities Law 1968, or is a corporation, in accordance with Section 15A(b)(2) thereof.

9.8.3 Each of the Classified Investors has, under the Prior Agreement, committed to subscribe in the tender, through the Dealer Manager, for such number of Units and at such prices equal at least to those stated in the table in Section 9.8.10 hereof, and to pay the consideration with respect to such Units.

9.8.4 Subscriptions by Classified Investors shall be submitted by tender, through the Dealer Manager, and shall, for the purpose of fixing the Selling Price and issuance of Units, be deemed subscriptions by the public, subject to the provisions of Section 9.8.8 hereof.

9.8.5 Issuance to Classified Investors shall be at the Selling Price as will be fixed by tender.

9.8.6 Classified Investors shall, by 12:30 p.m. on the first business day following the Tender Day, transfer to the Dealer Manager, through the authorized dealers, all of the consideration owing from them, and the Dealer Manager shall deposit said consideration in the Special Account.

9.8.7 In consideration of their commitment, Classified Investors shall be entitled to a commission equal to 0.45% of the immediate proceeds generated on the sale of Units to Classified Investors, calculated based on the Minimum Price, and to distribution commission equal to 0.05% of the immediate proceeds actually collected for Units actually issued to Classified Investors.

9.8.8 Such commissions shall be divided among Classified Investors pro rata to the number of Units actually purchased by each Classified Investor.

9.8.9 The issuance of Units to Classified Investors shall be subject to the following provisions:

In accordance with the Offering Regulations, in the event of oversubscription (for the purposes hereof, oversubscription shall mean the ratio of (x) the Units subscribed for at the Selling Price that will be fixed by tender and (y) number of Units available for distribution, provided that such ratio exceeds 1), the issuance to Classified Investors, based on their prior commitment, shall be effected as follows:

9.8.9.1 In the event that oversubscription does not exceed 5, each of the Classified Investors shall be issued 100% of the number of Units for which it has subscribed.

9.8.9.2 In the event that oversubscription does exceed 5, each of the Classified Investors shall be issued 50% of the number of Units for which it has subscribed.

9.8.9.3 In the event that the balance of securities available for distribution is not sufficient for an issuance as described above, the securities available for distribution shall be issued to Classified Investors on a prorated basis, according to the ration of (x) each of the prior commitments, to (y) the overall prior commitments made at the same price.

9.8.10 Notwithstanding the above, in the event that an issuance as described in Sections (1)-(3) above does not guarantee a minimum spread, the offered Units shall be issued on a prorated basis in accordance with Sections (4)-(6).

9.8.11 In the event that there is no oversubscription, the subscriptions made in the tender by Classified Investors shall, for the purpose of fixing the Selling Price and distributing securities to subscribers, be deemed subscriptions by the public.

9.8.12 Classified Investors may, under the public offering, subscribe for additional Units in excess of those pledged in their prior commitment, and in such case they shall be subject to all of the provisions applicable to subscriptions by other members of the public, and they shall not be entitled to any commission with respect to any additional Units.

9.8.13 The Units offered to Classified Investors constitute 80% of the overall number of Units offered to the public in this issuance.

9.8.14 The list of Classified Investors and the number of Units and Unit price pledged by each are provided in the table below:

	CLASSIFIED INVESTORS	UNITS	PRICE
*	ROSARIO CAPITAL LTD	3,000.0	990
	PRISMA PROVIDENT FUNDS LTD	55,000.0	981
*	DIRECT INVESTMENT HOUSE	3,223.0	980
*	(PROVIDENCE FUNDS) LTD		
*	ETGARIM PROVIDENT FUNDS	2,659.0	980
*			
	PRISMA PROVIDENT FUNDS LTD	3,000.0	980
	MILLENNIUM KEREN HISHTALMUT LTD	825.0	980
	MILLENNIUM KUPAT TAGMULIM AND COMPANSATION LTD.	825.0	980
	SHOMRA INSURANCE COMPANY LTD	1,500.0	980
	MERCANTILE PROVIDENT FUNDS MANAGEMENT LTD	5,000.0	980
*	MAKHTESHIM-AGAN INDUSTRIES LTD.	825.0	980
*	MANRAB HOLDINGD LTD.	825.0	980
*	KEREN HISHTALMUT FOR PRACTICAL ENGINEERS AND TECHNICIANS	2,000.0	980
*	WISER PROVIDENT FUNDS LTD	825.0	980
	PSAGOT OFEK INVESTMENTS MANAGEMENT LTD	35,000.0	977
	BANK IGUD NOSTRO	2,050.0	977
*	AFRICA (P) AGACH RATED WITHOUT SHARES - TRUST FUND	4,000.0	976
*	AFRICA (P) AGACH + STRATEGIC - TRUST FUND	3,000.0	976
*	AFRICA (P) AGACH MAKAM OPTION - TRUST FUND	1,000.0	976
*	AFRICA (P) AGACH - TRUST FUND	2,000.0	976
*	AFRICA (P) COMPANIES + STRATEGIC - TRUST FUND	1,000.0	976
*	ARTRADE (P) STRATEGIC - TRUST FUND	2,000.0	976
*	ARTRADE (P) STRATEGIC MAOF - TRUST FUND	1,000.0	976
	MILLENNIUM AGACH COMPANIES	1,000.0	976
*	ANALYST UNDERWRITING AND ISSUING LTD	2,500.0	975
*	I.B.I. FOUR SEASONS LTD	24,000.0	975
*	I.B.I BROKERAGE SERVICES AND INVESMENTS LTD.	20,500.0	975
	BITUACH HAKLAI - CENTRAL COOPERATIVE SOCIETY	1,650.0	975
**	JERUSALEM NOSTRO BANK	5,000.0	975
*	INFINITY GEMEL LTD	2,500.0	975
*	MILLENNIUM KUPAT TAGMULIM AND COMPANSATION LTD.	825.0	975
*	MENORA MIVTACHIM INSURANCE LTD. - MISHTATFOT	8,000.0	975
	MENORA MIVTACHIM HOLDINGS LTD.	3,000.0	975
	MENORA MIVTACHIM INSURANCE LTD.	3,000.0	975

	QUATTRO MUTUAL FUNDS MANAGEMENT LTD	825.0	975
	CLAL INSURANCE COMPANY LTD. - AMITIM	10,300.0	975
	CLAL GEMEL LTD.	27,000.0	975
**	MERCANTILE PROVIDENT FUNDS MANAGEMENT LTD	5,000.0	975
*	PRISMA PORTFOLIO MANAGEMENT LTD	4,950.0	975
*	THE FIRST INTERNATIONAL BANK LTD - PROVIDENT FUNDS DEP.	4,615.0	975
*	DAFNA LTD.	1,000.0	975
	ISRAEL STANDING ARMY SAVINGS FUND LTD.	2,600.0	975
	EL AL EMPLOYEES PROVIDENT FUNDS	1,000.0	974
*	I.B.I. NOGA	5,140.0	973
	BITUACH HAKLAI - CENTRAL COOPERATIVE SOCIETY	825.0	973
	THE PHOENIX MISHTATEF - Y	20,000.0	973
	THE PHOENIX GENERAL LANE	3,500.0	973
	THE PHOENIX TAGMULIM GENERAL	850.0	973
	THE PHOENIX HISHTALMOT GENERAL	1,000.0	973
	THE PHOENIX EXTENSIVE PENSION	2,000.0	973
	LEHAVA AGACH	825.0	973
*	MENORA MIVTACHIM PENSIONS LTD	16,443.0	973
	PRISMA PROVIDENT FUNDS LTD	2,736.0	972
	CLAL HEALTH INSURANCE COMPANY LTD. (NOSTRO)	684.0	972
	CLAL INSURANCE COMPANY LTD. (NOSTRO)	3,420.0	972
	ELIAHU INSURANCE COMPANY LTD.	1,368.0	972
*	YELIN-LAPIDOT PROVIDENT FUNDS MANAGEMENT LTD	4,925.0	972
*	MACHOG LTD	2,121.0	972
	PERFECT PROVIDENT FUNDS MANAGEMENT LTD	3,523.0	972
*	DASH PROVIDENT FUNDS MANAGEMENT LTD	13,681.0	972
*	DASH TRUST FUNDS LTD	2,815.0	972
*	DASH TRUST FUNDS LTD	4,905.0	972
	KUPAT TAGMULIM LTD. OZEM	821.0	972
	GMULOT - THE UNIT FOR PROVIDENT FUNDS MANAGEMENT	1,371.0	972
*	K.G.M COMPENSATION FUNDS	1,026.0	972
*	H.A.L AMITEI ABEINAIIM	1,026.0	972
*	YUVALIM STUDY FUND	1,231.0	972
*	YUVALIM FUND DISEASE	958.0	972
	BAROMETER AGACH	684.0	972
	SUM	360,700.0	972

* A Classified Investor affiliated with the Dealer Manager;

** A Classified Investor affiliated with the underwriter;

The Classified Investors have committed, in the aggregate, to subscribe for 360,700 Units, constituting 85.27% of the overall number of Units offered to the public under this prospectus, including 15,497 Units, constituting approximately 3.66% of the overall number of Units offered under this prospectus, which entities affiliated with the underwriters have committed to purchase, and including 139,746 Units, constituting approximately 33.03% of the overall number of Units offered under this prospectus, which entities affiliated with the underwriters consortium have committed to purchase.

9.8.15 On the Tender Day, until the subscription is closed, Classified Investors shall be entitled, by written notice to the Dealer Manager, to increase the Unit price to which they have committed under their prior commitment as stated above.

Chapter 10: The Debentures

10.1 The Debentures - General

The Debentures (Series B) (the Debentures or the Debentures (Series B)) are offered under this prospectus, in accordance with the resolution of the Company s Board of Directors dated September 23, 2007 and in accordance with the Trust Deed executed by and between the Company and Leumi Trust Company Ltd. of the same date (the Trust Deed).

As of the date of the issuance, Midroog Ltd. has rated the Debentures (Series B) A1 (see Section 10.3 herein).

10.1.1 Debentures (Series A) Repayment

423,000,000 registered Debentures (Series B), NIS 1.00 par value each, are offered under this Prospectus at a minimum price of 97% of their par value (i.e., 97 agorot for every NIS 1.00 par value of Debentures (Series B)). The Debentures (series B) are repayable in 6 equal annual installments on November 1st of each of the years 2010 to 2015 (inclusive). In other words, on November 1st of each of the years 2010 to 2015, the Company will pay up 16.666% of the principal of the par value of the Debentures (Series B) that are still in circulation. The principal of the Debentures (Series B) and the interest accruing thereupon, shall be indexed to the CPI published with respect to the month of August 2007.

10.1.2 Interest on the Debentures (Series B)

The outstanding balance of the Debentures (Series B) shall bear an interest of 5% per annum, payable once every 12 months as set forth below. The interest will be calculated based on an interest period of one year and will be paid once a year, on November 1st of each of the years 2008 to 2015, for the 12-month period concluded on the last day prior to the date of payment. Notwithstanding the above, the first payment of interest will be on November 1st 2008, for the period commencing on the first Business Day after the subscription has closed, and concluding on October 31, 2008, based on a 365-day year. The rate of such interest shall be 5.452%. The final installment of interest for the Debentures (Series B) will be paid on November 1st, 2015, upon which the balance of the principal on the Debentures (Series B) still in circulation will also be paid. Such payment of interest and principal will be effected against the surrender, at lest five Business Days before the date of repayment, of the debenture certificates to the Company. Tax will be deducted at source on all interest payments.

10.1.3 Deferrals

Should the scheduled date for any payment of interest and/or principal of the Debentures (Series B) occur on a day that is not a Business Day, the date will be deferred to the nearest Business Day thereafter. No interest shall be paid for such deferral. A Business Day is a day on which banks in Israel are open for business (**Business Day**).

10.1.4 Indexation

The principal and interest of the Debentures (Series B) will be indexed to the CIP, as follows:

The term **Consumer Price Index** (**CPI**) shall mean the price index known as the Consumer Price Index , including fresh produce, which is published by the Central Bureau of Statistics, or the same index if published by any other official institute or agency or any other official index that might replace said index, whether or not such replacing index is based on the same data. Should such index be replaced by another one, published by some other institute or agency as mentioned above, and should said institute or agency not announce the ratio between the new and original index, the ratio will be set by the Central Bureau of Statistics. In the event that such ratio is not set by the Central Bureau of Statistics, it shall be fixed by an economic expert whose selection shall be approved by the Trustee.

The term **Controlling CPI** shall mean the consumer price index known upon the date of any payment of principal and/or interest. However, if the Controlling CPI is lower than the Base CPI, the Controlling CPI shall be equal to the Base CPI, and if the Controlling CPI exceeds the Base CPI, the Company shall pay such amount increased pro rata to the increase in the Controlling CPI over the Base CPI.

The term **Base CPI** means the CPI for the month of August 2007.

The term **Known CPI** means the most recently published consumer price index.

If upon execution of any due payment it transpires that the Controlling CPI exceeds the Base CPI, the Company will pay the amount due plus an increase pro rated to the increase of the Controlling CPI over the Base CPI. If the Controlling CPI falls below the Base CPI, the former will substitute the latter.

10.1.5 **<u>Purchase of debentures by the Company and/or a subsidiary</u>**

The Company at all times reserves the right to purchase on the free market Debentures (Series B) at any price as it may deem fit, provided that this shall not release it from its obligation to repay the debentures still in circulation. The Company may not reissue Debentures (Series B) purchased and/or redeemed by it. Such debentures shall be canceled and delisted from the TASE. The Company will immediately issue a report giving notice of any such buyback and will notify the Trustee.

A subsidiary and/or an investee company and/or the controlling shareholders of the Company and/or companies controlled by the controlling shareholders of the Company (**Affiliated Holders**) may purchase and/or sell Debentures from time to time. The Company will issue an immediate report of any such purchase and/or sale.

Debentures held by an Affiliated Holder shall be deemed the asset of such Affiliated Holder and shall not be delisted from the TASE.

For the purpose of meetings of holders of the Debentures, the Trustee shall consider whether there is a conflict of interest among holders, according to the circumstances. The Company and the Trustee shall, at the Trustee s instruction, cause class meetings of holders of the Debentures as required by law. It is presumed that an Affiliated Holder shall have a conflict of interest with other holders. In the event that any of the Affiliated Holders still holds any of the Debentures, class meetings shall be called, such that one of the classes shall not include any Affiliated Holders. In the event that class meetings are called, any resolution to be approved with respect to the Debentures shall require approval by each of the class meetings called and by the general meeting of all holders of the Debentures, all according to the majorities required under the Trust Deed and the exhibits thereto. The Trustee may, at its exclusive discretion, determined that a specific resolution does not require a meeting of Affiliated Holders or that such a meeting shall not be convened. In any event, the meeting of Affiliated Holders will not have veto power over any resolution adopted by the class meetings.

10.1.6 <u>Taxation</u>

For the taxation of debentures, see Paragraph 9.7 of the prospectus.

10.1.7 Payment of Principal and Interest on the Debentures (Series B)

All principal and interest payments due on the Debentures (Series B) will be effected on the dates stipulated in Sections 10.1.1 and 10.1.2 above and in accordance with the terms set forth therein. Such payments will be made to those persons who at the end of October 20th of the relevant year for payment are listed as holders of Debentures (Series B) (**Date of Record**). Notwithstanding the above, the last payment of principal and interest will be on November 1st, 2015, against the surrender of the Debenture certificates to the Company at its registered address and/or at any other location as designated by the Company. The Debentures must be surrendered to the Company at least five Business Days prior to the date of payment.

Eligible holders will be paid with check or by bank transfer, crediting the bank account of the persons listed as holders or the persons surrendering the Debentures.

Should a holder who is eligible for payment fail to give the Company details of his/her bank account in due time, all payments of principal and interest will be effected by checks posted by registered mail to his/her most recent address as registered in the Register of Debentures (Series B) Holders. Postage of checks by registered mail as mentioned above shall, for all intents and purposes, be deemed as payment of the amount of the check at the date of postage, provided that said check is paid up upon presentation. Checks for sums lower than NIS 50 will not be sent, but such amounts may be collected in cash at the Company s offices.

Should a holder wish to revise the instructions he/she has given for payment (check/bank transfer and address), he/she can do so by written notice delivered by registered mail. The Company will honor the new instructions for any given payment only if they arrive at the Company s registered address at least 30 days prior to the date fixed for such payment under the terms of the Debentures (Series B). Should the Company receive said notice later than stipulated, it will only honor the instructions in respect of payments that become due after the date of payment immediately following the receipt of such notice.

Upon one year from the date of final redemption of the Debentures, the Trustee shall return to the Company any amounts it has accrued, less all of the Trustee s expenses, and the Company shall hold them in trust for the holders of Debentures and invest them as set forth above, or, in the alternative, cause such amounts to be paid by check, delivered by registered mail, in accordance with the provisions of the Trust Deed. The Company shall, with respect to any money repaid to it, provide the Trustee confirmation of such repayment and of the receipt in trust of such money for the benefit of holders of the Debentures. Such confirmation shall constitute full and final release of the Trustee in all matters relating to such amounts.

10.1.8 Default for Reasons outside of the Company s Control

In case any payment payable to a holder is not actually effected due to reasons that are outside of the Company s control and provided that the Company was prepared to effect said payment, the amount due will no longer bear interest indexation, and the holder will only be entitled to such amount to which he/she was entitled upon the date scheduled for such payment of interest or principal.

Within 30 days of the date fixed for payment, the Company will deposit with the Trustee any amount that has not been paid for reasons outside of the Company s control. Once such deposit is made, the Company will be deemed to have effected payment of the due amount. If the payment was to constitute final settlement of all amounts due in respect of the Debentures, the Company will also be deemed to have redeemed the Debentures.

The Trustee shall deposit any such amount in the bank to the benefit of such account holders and invest it in investments as permitted under the Trust Deed, i.e., securities of the State of Israel and other securities in which the laws of the State of Israel permit investment of trust money, all as the Trustee may deem fit and in accordance with the provisions of the law. Once the Trustee returns said amounts as provided above, holders who are entitled to them will only be entitled to the consideration received for liquidation of the investments, less any expenses, commission and mandatory payments ancillary to such investment and the management of the trust and less the Trustee s fees.

The Trustee shall transfer to each of the holders of the Debentures for whom money has been entrusted with the Trustee, the amount due to each holder, less all expenses, commissions, mandatory payments and the Trustee s fees, all against such evidence of entitlement as the Trustee may require.

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Register of Holders

The Company will, at its registered address, maintain Register of Holders which will list the names of holders of Debentures (Series B), their addresses and the numbers and par value of their Debentures. The Register shall also reflect all transfers of the Debentures. The Company may close the Register from time to time for a period or periods that will not, in the aggregate, exceed 30 days a year. The Trustee and each of the holders of the Debentures (Series B) may inspect the Register of holders of Debentures (Series B) at any reasonable time.

The Company will not be obligated to enter in the Register any notice regarding an express, implied or expected trust, liens or encumbrances of any kind or any equitable rights, claims or setoff rights in connection with the Debentures. The Company will only recognize the title of the person in whose name the Debentures are registered, provided that his/her lawful heirs, executors or administrators or any person entitled to the Debentures following the bankruptcy of any registered holder (or, in case of a corporation following its dissolution), are eligible to be registered as owners subject to the provision of sufficient evidence to the satisfaction of the Company s Board of Directors that they are indeed entitled to be registered as owners.

The provisions of the Articles of Association of the Company regarding registration in the Registry of Shareholders, recognition of heirs, executors and guardians of a deceased shareholder, co-holders of shares and notices to shareholders, shall apply to holders of the Debentures, mutatis mutandis and subject to any specific arrangements stipulated in the Trust Deed.

10.1.9 Modification of Rights

The rights attached to the Debentures may be modified as provided in Section 10.2.3 below.

10.1.10 Splits and transfers

All the Debenture certificates may be split into Debenture certificates such that the aggregate value of the principal of the resulting certificates equals the par value of the original certificate, and provided that the par value of the new certificates is in NIS, in whole numbers. Such split may be effected against the surrender of the original certificate that is to be split to the Company at its registered address. Such split will be effected within 7 days of the date on which the certificate is surrendered at the Company s registered address.

Any par value of the Debentures may be transferred, provided that such amount is in NIS and in whole numbers and provided that the transfer is in accordance with a transfer deed whose language is as practiced by the Company for the purpose of transferring shares and which is duly signed by the registered owner of the Debenture or by his/her lawful representative.

The transfer deed is to be submitted for registration to the Company at its registered address, together with the Debenture certificate and any other evidence of the identity of the holder and his/her entitlement to transfer, as the company may request, and together with certification, to the Company s satisfaction, that all mandatory payments (if any) have been paid. The Company may choose to keep the transfer deed.

The Company s Articles of Association relating to share transfers will govern the transfer or endorsement of Debentures.

Any other expenses related to the split and/or transfer of debentures, including stamping duty, handling fees and other duties, if any apply, will be covered by the owner of the debenture seeking such split and/or transfer, as relevant. The provisions of this Section will also apply to any waiver of Debentures.

10.1.11 Voluntary Liquidation

The Company shall give the Trustee and each of the holders of Debentures written notice of any resolution of voluntary liquidation, and shall publish notice of such a resolution in two widely-circulated Hebrew-language newspapers in Isreal.

10.1.12 Early Redemption of Debentures (Series B)

In the event that the TASE decides to delist the Debentures (Series B) in circulation because the value of such Debentures falls below the threshold for delisting fixed in the regulations of the TASE, the Company will proceed as follows:

10.1.12.1 Within 45 days of the resolution of the TASE board to delist the Company as stated above, the Company will announce a date for early redemption, on which holders of Debentures (Series B) may redeem them.

10.1.12.2 Notice of early redemption will be published in two widely circulated Hebrew language daily papers in Israel and given in writing to the Trustee and each of the registered holders of Debentures (Series B).

10.1.12.3 Early redemption will be between 17 and 45 days from publication of said notice, but will not occur between the Date of Record for payment of interest and the actual payment thereof.

10.1.12.4 On the date of early redemption, the Company shall redeem the Debentures (Series B) whose holders have asked that the Company redeem, at the balance of their par value plus indexation and any interest accruing on the principal through the actual date of redemption, in accordance with the terms of the Debentures, and the Debentures (Series B) shall be delisted from the TASE.

10.1.12.5 Holders of Debentures (Series B) who exercise early redemptions as described above, will not be entitled to interest and/or indexation for the period after redemption.

10.1.12.6 The conversion rights attached to such Debentures (Series B) that are not redeemed early in the event of delisting as described above, shall remain as stated in the terms of such Debentures (Series B); however, the Debentures (Series B) shall be delisted from the TASE and shall, among other things, be subject to certain consequent tax implications.

10.1.13 Issue of Additional Debentures

The Company reserves the right to issue additional Debentures (Series B), and shall not, for this purpose, require the consent of the Trustee or holders of debentures of any series then in circulation (**Additional Debentures**). The Company shall be entitled to issue Additional Debentures under such terms as it may deem fit, and may, among other things, fix the aggregate par value and price of the Additional Debentures issuable in each issuance. The Company may issue Additional Debentures at a price identical to, greater or lower than the price of the Debentures under the prospectus. In the event that Additional Debentures are issued, the Trustee shall be entitled to demand an increase of its fees, pro rata to the increase in the number of Debentures issued, and the Company has given its prior consent under the Trust Deed to any such increase in the Trustee s fees.

10.1.13.1 In the event that the discount resulting for the Debentures (Series B) from the issuance of Additional Debentures is different than the discount on the Debentures (Series B) in circulation at such time, the Company shall, immediately prior to such issuance, apply to the tax authorities to obtain their approval that for the purposes of withholding tax on the discount with respect to the Debentures, a fixed discount shall be determined for all the Debentures (Series B), in accordance with a formula that weights the different discounts, to the extent that there are any.

10.1.13.2 Upon receipt of such approval, the Company shall calculate the weighted discount for all of the Debentures, and, before issuing additional Debentures (Series B), shall issue an immediate report regarding the fixed weighted discount for the series, according to the weighted discount calculated as described above and in accordance with the provisions of the law. If such approval is not obtained, the Company shall, immediately prior to the issuance of Additional Debentures, issue an immediate report stating that the fixed discount for the series shall be the highest discount that will be generated as a result of the issuance of Additional Debentures. The Company shall, upon redemption of the Debentures, withhold tax according to the discount reported as described above.

10.1.13.3 There may therefore be cases in which the Company shall withhold tax for a discount exceeding that which had been fixed for holders of the Debentures before the later issuance. In such case, a taxpayer that held Debentures before the issuance of Additional Debentures and through to redemption, shall be entitled to file a tax return with the tax authorities, and to be reimbursed for the tax withheld on the discount, to the extent such taxpayer is entitled by law to such reimbursement.

10.1.13.4 The Company reserves the right, in accordance with the law, to issue, without requiring the consent of the Trustee and/or holders of Debentures (Series B), other series of convertible other debentures, and may be subject to such redemption, interest, priority on liquidation, conversion (if at all) and other terms at the Company s discretion, whether such terms are superior, equal or inferior to those attached to the Debentures (Series B).

10.1.13.5 Holders of Additional Debentures shall not be entitled to any interest with respect to periods that ended prior to the issuance of such Additional Debentures. The Company shall give the Trustee notice of any issuance of Additional Debentures.

10.1.13.6 The foregoing provisions of this Section and/or the provisions of Section 10.1.5 above shall not, in and of themselves, obligated the Company or holders of Debentures to purchase or sell their Debentures.

10.1.14 Receipts as Evidence

Receipts from holders of Debentures for amounts they were paid by the Trustee in connection with the Debentures shall serve as full and final release of the Trustee with respect to payment of any of the amounts stipulated in such receipts.

10.1.15 **Replacement of Debenture Certificates**

In case a Debenture certificate wears out or gets lost or destroyed, the Company may issue a new Debenture certificate in its stead. Any such replacement certificate will stipulate the same terms as the original. The person seeking such replacement shall cover all the costs related to evidence of title, indemnification in the event that such person was not the lawful holder and expenses incurred by the Company in connection with ascertaining title, at the Board s discretion, provided that in case of wear and tear, the worn out certificate is returned to the Company before the new certificate is issued. Any mandatory charges or other expenses associated with the issuance of a new certificate shall be paid by the person seeking such issuance.

10.2 Trust Deed

Unless otherwise stated, the provisions of this Section with respect to the Trust Deed relate to the two Trust Deeds executed by the Company and the Trustee.

10.2.1 The Trustee for the Debentures (Series B) is Leumi Trust Company Ltd., a company limited by shares, organized under the laws of the State of Israel, whose main purpose is the management of trusts and which satisfies the conditions stipulated in the Securities Law 1968 (**Securities Law**) with respect to competence to serve as Trustee for holders of Debentures (Series B) offered hereunder.

10.2.2 The full language of the Trust Deed and the debenture attached thereto with respect to each the debentures offered under this prospectus are available at the Company s registered address and may be inspected on any Business Day during regular office hours, as of the date of this prospectus.

10.2.3 Revisions of and Waiver and Settlement Relating to the Trust Deed

Subject to the provisions of the law, the Trustee may from time to time and at any time waive any breach by the Company or failure by same to comply with any of the terms of the Trust Deed, provided that the Trustee is convinced that such breach or failure do have an adverse effect on the rights of holders of Debentures (Series B).

Subject to the provisions of the law and to prior approval by a majority of 75% of holders of Debentures (Series B) voting at a general meeting of holders of Debentures (Series B), in which at least 50% of the balance of the Debentures (Series B) in circulation is represented in person or by proxy, or at an adjourned meeting in which at least 10% of the balance of the Debentures (Series B) in circulation is represented in person or by proxy, the Trustee may, whether before or after the principal of the Debentures is redeemable, enter any settlement with the Company in connection with any right or claim by holders of the Debentures, and enter any arrangement with the Company with respect to the rights of the Trustee or of the holders of Debentures, including waiver of any right of or claim that the holders of the Debentures may have against the Company under the Trust Deed. In the event that the Trustee enters such settlement, subject to prior approval by the holders of Debentures in accordance with the foregoing, the Trustee shall be exempt from any liability in connection with such settlement. The foregoing shall not be construed as exempting the Trustee from liability for actions it has and/or should have carried out prior to the adoption of such resolution by the general meeting of holders and/or in the event that the Trustee failed to proceed in accordance with the resolution adopted by such meeting. Subject to the mandatory provisions of the law, the Trustee and the Company may, whether before or after the principal of the debentures (Series B) is redeemable, amend the Trust Deed, including the terms of the Debentures (Series B), provided that any of the following circumstances has occurred:

10.2.3.1 The Trustee is satisfied that the revision does not have an adverse effect on the holders of Debentures.

10.2.3.2 The holders of Debentures have, by an extraordinary resolution adopted at a general meeting of holders of Debentures in which the holders of at least 50% of the outstanding balance of Debentures in circulation were represented in person or by proxy, or at an adjourned meeting in which the holders of at least 10% of the outstanding balance of Debentures in circulation were represented in person or by proxy, consented to the proposed amendment.

In any event that the Trustee exercises its right under this Section, the Trustee may demand that holders of Debentures (Series B) deliver to it or to the Company the Debentures (Series B) in order to enter in them notice of any such settlement, waiver or amendment, and, at the Trustee s request, the Company shall enter in the Debentures delivered to it a notice to this effect.

The Company shall issue an immediate report of any such amendment immediately upon gaining knowledge of same and/or upon the Trustee s demand.

10.2.4 **<u>General meetings of holders of Debentures (Series B)</u>**

The Trustee or the Company may convene general meetings of the holders of Debentures (Series A) that have not yet been redeemed. Upon convening such a meeting, the Company shall immediately give the Trustee written notice of the place, date and time at which such meeting shall be held and of the agenda, and the Trustee or its representative and a representative of the Company may participate in such meeting.

10.2.4.1 No meeting may be convened by any person other than the Company or the Trustee, except by holders of Debentures representing at least 10% of the outstanding par value of the Debentures in circulation, and provided that such holders have, within reasonable time prior to the date specific by them for the meeting, applied to the Trustee in writing to convene a meeting, explaining why such meeting should be convened, and provided that the Trustee rejected or ignored their application in violation of its duties under the Trust Deed and under the law. At the written request of the Trustee or holders of Debentures as described above, the Company shall convene a general meeting of holders.

10.2.4.2 Notice of at least fourteen (14) days specifying the place, date and time of the meeting and providing a general description of the agenda for the meeting shall be given of each meeting of the holders of Debentures (Series B). Such notice shall be given to holders of the Debentures, to the Trustee and in an immediate report. The Trustee may, at its discretion, shorten the notice period if it is of the opinion that a delay would cause an adverse effect to the rights of holders of the Debentures.

10.2.4.3 If the purpose of the meeting is to adopt an extraordinary resolution, notice of such meeting shall be delivered at least twenty one (21) days prior to the date fixed for the meeting. Such notice shall also provide a summary of the proposed resolution. The Trustee may shorten the notice period mentioned above if the matter is urgent or if the Trustee is satisfied that if the meeting is not convened sooner, the rights of holders of Debentures would be adversely affected.

The accidental omission to give notice of a meeting convened in accordance with the foregoing, or the non-receipt of a notice by a Debenture holder entitled to receive such notices, shall not invalidate the proceedings of such meeting, provided that an immediate report regarding the convening of such meeting had been issued.

10.2.4.4 Notices by the Company and/or the Trustee to holders of Debentures shall be given in accordance with the following provisions:

(1) By a report on the MAGNA system of the Israel Securities Authority; (upon such instruction by the Trustee, the Company shall immediately make a report on the MAGNA on behalf of the Trustee in such language as provided in writing by the Trustee to the Company); **and**

By publication of notice in two widely-circulated Hebrew-language newspapers in Israel;

or

(2) By delivery of notice by registered mail to each of the holders of Debentures at such holder s latest address as appearing in the Register of Holders (and in case of join holders to the joint holder whose name stands first in the Register).

10.2.4.5 The Company shall also issue an immediate report including copies of any notices given by the Company and/or the Trustee to holders of Debentures, and a copy of such immediate report shall be delivered to the Trustee.

10.2.4.6 The Trustee will appoint a chair for the meeting. Had the Trustee not appointed a chair or if the chair is not present at the meeting, the holders of Debentures present at the meeting shall elect one of their number to serve as chairman of the meeting.

10.2.4.7 No business shall be transacted at any meeting of holders of Debentures before the chair establishes that a quorum is present.

10.2.4.8 Subject to the quorum required for a meeting called for the purpose of adopting an extraordinary resolution, and subject to the quorum required for the removal of a Trustee in accordance with the Securities Law, the quorum shall include the presence, in person or by proxy, of two Debenture holders holding or representing, in the aggregate, at least one tenth (1/10) of the outstanding balance of Debentures in circulation at such time.

10.2.4.9 If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the next week (and if this is not a day of commerce, to the first day of commerce thereafter) at the same time and place, by notice by the Company via MAGNA, or to such other day, time and place, at the choice of the person convening the meeting, of which such person shall give holders of Debentures at least three (3) days prior notice. At an adjourned meeting the required quorum shall be two holders, present in person or by proxy, regardless of the par value represented by their holdings, all provided that the provision fixing such quorum is quoted in the notice of the original meeting and that the notice to holders of Debentures of the adjournment is published at least seven (7) days prior to the date designated for the adjournment. Such notice may be delivered as part of the notice of the meeting as originally called (the one that is adjourned).

10.2.4.10 The quorum for a meeting convened for the purpose of adopting an extraordinary resolution, including, among other things, regarding the following matters:

(1) Amendment of the Trust Deed;

(2) Any amendment or settlement regarding rights of holders of Debentures (Series B), whether these rights arise from the Debenture (Series B), the Trust Deed or any other source or from any settlement or waiver relating to such rights;

(3) Declaring the Debentures (Series B) immediately due and payable, in accordance with the terms of the Trust Deed;