



2005 earnings release

March 1, 2006

01.03.2006

Bezeq Group in 2005:

Earnings of NIS 591 million

- Bezeq is expected to distribute a dividend of NIS 1.2 billion; Pelephone will distribute a dividend of NIS 300 million to Bezeq
- Yacov Gelbard, CEO of the Bezeq Group: "This year will be one of change, and of adjustment to a changing market"
- Bezeq's revenues in 2005 – NIS 11.1 billion, compared with NIS 9.27 billion in 2004
- Operating income – NIS 1.317 billion (NIS 1.392 billion last year)
- Return on equity – 7.6%

All the companies in the Bezeq Group are continuing to show achievements in their main areas of operation:

- Bezeq wireline communications – net earnings of NIS 654 million in 2005 (NIS 601 million in 2004); more than 800,000 high-speed internet customers
- Pelephone – Impressive success in recruiting new subscribers, 10% increase in one year; 3G services significantly contributed to revenues
- YES – Ongoing growth in revenue, increase in subscribers and improved business results
- Bezeq International – Leads the high-speed internet market in Israel, with 36% of all surfers; net earnings of NIS 110 million.

Net earnings

In 2005 the Bezeq Group posted net earnings of NIS 591 million, compared with NIS 621 million in 2004, a decrease of about 5%. The difference is a result of the first-time consolidation of Pelephone and YES during 2004.

The net earnings of the Bezeq Group in the fourth quarter of 2005 was NIS 44 million, compared with NIS 104 million in the fourth quarter of 2004 (a decrease of 58%). The decrease is explained by seasonal factors, a provision for a special benefit for employees and a provision for inventory reduction.

Earnings per share for 2005 were NIS 0.227 per share, compared with NIS 0.238 per share in 2004.

Revenue

Revenue of the Bezeq Group in 2005 amounted to NIS 11.1 billion, compared with NIS 9.27 billion in 2004, an increase of about 20%. The increase, which amounts to NIS 1.99 billion, derives from the difference as a result of the first-time consolidation of Pelephone and YES during 2004.

Revenue of the Group in the fourth quarter of 2005 amounted to NIS 2.759 billion, almost unchanged from in the fourth quarter of 2004 (NIS 2.776 billion).

Operating and general expenses

The operating and general expenses of the Bezeq Group in 2005 amounted to NIS 7.19 billion, compared with NIS 5.57 billion in 2004, an increase of about 29%. The difference derives from the first-time consolidation of Pelephone and YES.

In the fourth quarter of 2005, operating and general expenses for all the Group companies amounted to NIS 1.852 billion, compared with NIS 1.830 billion in the same period last year.

Operating income

The operating income of the Bezeq Group in 2005 amounted to NIS 1.317 billion, compared with NIS 1.392 billion in 2004, a decrease of about 5.5%. Among the reasons for the decrease are the erosion of profitability in the main segments in which the Group operates, except for multi-channel television (YES).

Operating income in the fourth quarter of 2005 amounted to NIS 264 million, compared with NIS 283 million in the fourth quarter of 2004, a decrease of 7%.

Financing expenses

In 2005 the net financing expenses of the Bezeq Group amounted to NIS 417 million, compared with NIS 218 million in 2004, an increase on 91%. Of these expenses, NIS 133 million are attributable to the first-time consolidation of Pelephone and YES. The effects of the changes in foreign currency rates and the shekel were partially eliminated by hedging transactions and by investment in financial assets.

Cash balance

The cash balance and short-term investments of the Group on December 31, 2005 amounted to NIS 4.56 billion, compared with NIS 2.74 billion on December 31, 2004, an increase of 66%. Bezeq will pay out distributable earnings of about NIS 1.2 billion accumulated in 2004 and 2005, while concurrently, Pelephone will pay Bezeq a dividend of NIS 300 million – all pending the approval of the shareholders who will convene in the near future.

Shareholders' equity

As at December 31, 2005, the shareholders' equity of the Bezeq Group amounted to NIS 8.06 billion, which was about 39% of the balance sheet, compared with NIS 7.47 billion and 37% of the balance sheet on December 13, 2004, an increase of about 8%. The increase derived from the net earnings of the Group companies in 2005.

Cash flow

Consolidated cash flow from current operations for 2005 amounted to NIS 2.719 billion, compared with NIS 2.851 billion in 2004.

Comparison Table Principal Results – 2005 and 2004 balance sheets (in NIS millions)

	December 31, 2005	December 31, 2004
Net earnings	591	621
Earnings per share	NIS 0.227 per NIS 1	NIS 0.238 per NIS 1
Revenue	11,100	9,270
Operating and general expenses	7,190	5,565
Operating income	1,317	1,392
Financing expenses	417	218

Quarterly Data – Consolidated – in NIS millions

	2005	2005	Q4 2005	Q3 2005	Q2 2005	Q1 2005

Income from telecommunication services	11,099	9,270	2,760	2,839	2,727	2,773
Operating and general expenses	7,194	5,565	1,852	1,836	1,742	1,764
Depreciation	2,331	2,092	582	588	583	578
Royalties to the State of Israel	257	221	62	65	65	65
	9,782	7,878	2,496	2,489	2,390	2,407
Operating income	1,317	1,391	264	350	337	366
Financing expenses, net	(417)	(217)	(145)	(107)	(110)	(55)
Earnings after financing expenses	900		119	243	227	311
Other income (expenses), net	109	80	(21)	(23)	65	88
Earnings before tax	1,009	1,254	98	220	292	399
Income tax	429	497	54	115	127	133
Earnings after income tax	580		44	105	165	266
Share in losses of affiliates	(13)	(135)	-	(2)	(8)	(3)
Minority share in earnings (losses) of a consolidated company	9	(0.6)	-	-	7	2
Accrued impact of change in accounting method	15		-	-	-	15
Net earnings	591	621	44	103	164	280

Financial ratios	FY 2005	FY 2004	Q4 2005	Q4 2004
EBITDA margin	33%	38%	31%	32%
EBIT margin	12%	15%	10%	10%

Balance sheet data:	December 31, 2005 in NIS millions	December 31, 2004 in NIS millions
Total balance sheet	20,666	20,172
Total liabilities	12,608	12,706
Shareholders' equity	8,058	7,466
Ratio of liabilities to shareholders' equity	1.56	1.70

Principal Results at Bezeq Domestic Wireline Communications

The results of the financial statements of Bezeq wireline communications were influenced by the call tariff reductions in June 2004 and 2005, as well as the ongoing transition to high speed internet surfing.

Operating income in 2005 amounted to NIS 851 million, compared with NIS 971 million in 2004.

Revenue decreased from NIS 4.96 billion in 2004 to NIS 4.72 billion in 2005.

Statement of Operations of the Company for the year ended December 31

	2005 (in NIS thousands)	2004 (in NIS thousands)	2003 (in NIS thousands)
Revenue from telecommunication services	4,723,734	4,959,691	5,230,561
Costs and expenses			
Operating and general expenses	2,346,451	2,347,448	2,366,547
Depreciation	1,390,435	1,495,909	1,776,279
Royalties to the Government of Israel	135,575	145,318	181,116
	3,872,461	3,988,675	4,323,942
Operating income	851,273	971,016	906,619
Financing expenses, net	(80,897)	(93,216)	(62,372)
Earnings after financing expenses	770,376	877,800	844,247
Other revenue (expenses), net	201,012	109,904	(846,948)
Earnings before income tax	971,388	987,704	(2,701)
Income tax	(332,118)	(387,079)	(33,513)
Earnings after income tax (net earnings of Bezeq domestic wireline communications)	639,270	600,625	(36,214)

Principal results of Pelephone

Pelephone's revenue in 2005 remained stable, mainly due its success in recruiting 211 new subscribers while retaining its existing subscribers, leading to an increase of 10% in the total number of subscribers.

Revenue in 2005 amounted to NIS 4.428 billion, similar to 2004 (NIS 4.412 billion).

Net earnings for 2005 amounted to NIS 236 million, compared with NIS 301 million in 2004. The decrease was due mainly to the reduction in interconnect fees and tariff erosion.

Principal results of YES

The financial statements of YES indicate increasing numbers of subscribers and growing revenue alongside

decreasing losses.

Revenue in 2005 amounted to NIS 1,222, an increase of 19% compared with 2004.

Net loss in 2005, after financing expenses, was NIS 328 million, compared with a net loss of NIS 366 in 2004.

Gross profit in 2005 was NIS 132 million, an increase on NIS 117 compared with 2004.

Operating loss (EBIT) in 2005 was NIS 86 million, 55% less than in 2004.

Principal results of Bezeq International

Throughout 2005, Bezeq International led the high speed internet market in Israel, with 36% of the market by the end of the year. Bezeq International is also leader in the international calls market, with a 34% market share.

Revenue – In 2005 Bezeq International was able to maintain its high level of revenue compared with its competitors, reaching NIS 816.7 million (2004 – NIS 816.4 million).

Net earnings for 2005 amounted to NIS 110.4 million, compared with NIS 120.8 million in 2004 – a decrease of only 8.7%, despite the intensifying competition in the international calls market and the considerable decrease in revenue from outgoing calls.

Principal results of BezeqCall

In 2005 BezeqCall deepened its hold in Israel's large business organization world, and posted a 32% increase in earnings.

Revenue in 2005 amounted to NIS 249 million, an increase of 7% compared with 2004 (NIS 233 million).

Net earnings amounted to NIS 4.6 million, an increase of 32% compared with 2004 (NIS 3.5 million).