

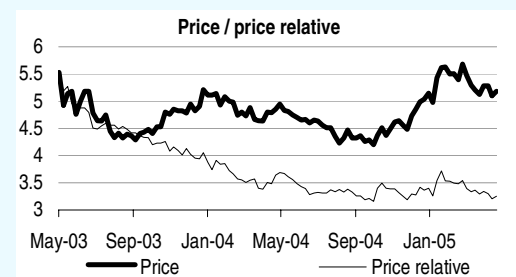
Q1 2005

- Bezeq reported Q1 figures which were slightly ahead of our expectation on the net income line with revenues of NIS 2.77bn, EBITDA of NIS940m and net income of NIS 280m (CSFB NIS 255m), although net income was also positively impacted by a NIS 15m accounting change impact in Q1.
- Wireline and cellular revenue performance of NIS 1.2bn and NIS 1.1bn respectively were also in line with our expectations, but DBS reporting NIS 288m is what we would consider relatively strong (+22% yoy), and there are further signs for fundamental improvements with an operating profit of NIS 32m in Q1. Since the financial performance if DBS has often been a concern to us and we think to the market, even marginal improvement in this area should be a valuation positive.
- Key issue remains the outlook for privatisation, and we think chances this time are that the government will succeed with its plan to sell a 30% stake (May 9th being the deadline for the bids). We have always argued that ownership change is a necessary condition for any potential change in valuations, given the restructuring potential at Bezeq.

Bezeq is the incumbent PTT in Israel.

Rating	NEUTRAL*
Price (03 May 05)	5.26 (NIS)
Target price (12 months)	5.50 (NIS)
Market cap. (NIS m)	13,702.30
Enterprise value (NIS m)	20,000.21
Region/country	Europe/Israel
Sector	Integrated Telecommunication Services
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	0
Date	04 May 2005

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



The price relative chart measures performance against the isr_ta10 index
On 03/05/05 the isr_ta10 index closed at 690.94
On 03/05/05 the spot exchange rate was NIS5.63/Eu 1. - Eu 0.78/US\$1

Performance over	1mth	3mths	12mths
Absolute (%)	2.8	-6.4	8.1
Relative (%)	-1.0	-7.9	-10.6

Year	12/03A	12/04A	12/05E	12/06E
Revenues (NIS m)	7,981.3	9,269.8	10,198.2	10,240.4
EBITDA (NIS m)	3,253.93	3,484.02	3,905.26	4,041.40
Net income (NIS m)	-437.3	620.8	763.6	766.6
CSFB adj. EPS (NIS)	-0.18	0.24	0.29	0.29
ROIC (%)	6.8	5.9	6.1	6.5
P/E (x)	NM	22.1	17.9	17.9
P/E rel (%)	NM	96.9	92.6	NM
EV/EBITDA (x)	5.3	6.2	5.1	4.5

Dividend 2004 (NIS)	—	Book value/share (12/04, NIS)	2.9
Dividend yield (%)	—	Free float (%)	26.0
IC (12/05E, NIS m)	14,527.26	Number of shares (m)	2,605.05
Net debt (12/05E, NIS m)	6,297.9	EV/IC (12/05E, x)	1.4
Net debt/equity (12/05E, %)	76.5	Current WACC (12/05E, %)	9.5

Source: FTI, Company data, Datastream, CSFB (EUROPE) LTD. Estimates

research team

István Máté-Tóth
44 20 7888 1598
istvan.matetoth@csfb.com

Olga Bystrova
7 501 967 8871
olga.bystrova@csfb.com

IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS ARE IN THE DISCLOSURE APPENDIX.

Financials

Figure 1: Summary Income Statement

NIS in millions, unless otherwise stated

	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E
Sales	8,510	8,063	7,981	9,270	10,198	10,240	10,261	9,711	9,757
EBITDA	3,570	3,287	3,254	3,484	3,905	4,041	4,040	3,891	3,858
wireline EBITDA				2,467	2,440	2,354	2,242	2,158	2,069
Pelephone EBITDA				1,165	1,190	1,340	1,373	1,224	1,254
DBS/other EBITDA				(148)	275	346	424	509	535
Depreciation	(2,716)	(2,270)	(2,160)	(2,092)	(2,550)	(2,693)	(2,836)	(2,979)	(3,123)
EBIT	854	1,017	1,094	1,392	1,356	1,349	1,204	911	735
Other costs, net	(105)	(1,207)	(983)	80	100	0	0	0	0
Net Interest	(151)	(165)	(158)	(218)	(383)	(275)	(157)	(15)	135
Profit pre tax	598	(355)	(47)	1,254	1,072	1,073	1,047	896	871
Taxation	(241)	(207)	(48)	(497)	(365)	(343)	(314)	(269)	(261)
Profit after tax	358	(562)	(95)	756	708	730	733	627	610
Associates	(237)	(354)	(343)	(135)	(50)	(49)	(48)	(47)	(46)
Minorities	6	3	1	(1)	106	86	72	51	53
Net attributable earnings	127	(913)	(437)	621	764	767	757	631	616

Source: Company data, CSFB estimates

Figure 2: Cash Flow Summary

NIS in millions, unless otherwise stated

	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E
EBITDA	3,570	3,287	3,254	3,484	3,905	4,041	4,040	3,891	3,858
Change in working capital	227	(1,315)	(823)	(279)	279	0	0	0	0
Other non cash items	66	1,200	604	241	(450)	(300)	(300)	0	0
Operating cash flow	3,863	3,173	3,035	3,445	3,735	3,741	3,740	3,891	3,858
Taxes paid	(363)	(177)	(186)	(278)	(365)	(343)	(314)	(269)	(261)
Interest paid	(151)	(165)	(158)	(218)	(383)	(275)	(157)	(15)	135
Cash earnings	3,349	2,830	2,692	2,950	2,987	3,123	3,269	3,607	3,732
Net investment in tangible fixed assets	(1,321)	(1,354)	(1,414)	(1,651)	(1,630)	(1,580)	(1,580)	(1,580)	(1,580)
Financial acquisitions and disposals	(635)	(344)	(155)	(389)	(200)	0	0	0	0
Other	(1,302)	(862)	(190)	0	0	0	0	0	0
Cash-flow before financing	91	270	934	911	1,157	1,543	1,689	2,027	2,152
New equity			878						
Net change in debt	(354)	(658)	(646)	(1,407)					
Other/Dividends			(185)						
Change in cash	(263)	(388)	980	(497)	1,157	1,543	1,689	2,027	2,152

Source: Company data, CSFB estimates

Figure 3: Summary Balance Sheet*NIS in millions, unless otherwise stated*

	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E
Fixed assets		9,782	8,699	10,740	9,821	8,708	7,452	6,052	4,510
Working capital		279	(0)	(279)	0	0	0	0	0
Other assets/(liabilities), net		2,911	1,732	3,841	3,991	3,942	3,894	3,847	3,801
Net operating assets		12,972	10,431	14,302	13,812	12,650	11,346	9,899	8,311
Net debt/(cash)		5,055	2,213	6,632	5,475	3,933	2,243	217	(1,936)
Provisions		1,327	1,373	1,273	823	523	223	223	223
Minorities			0	(1,068)	(1,174)	(1,260)	(1,332)	(1,383)	(1,436)
Shareholders funds		6,590	6,845	7,466	8,229	8,996	9,753	10,384	11,001
Capital employed		12,972	10,431	14,302	13,353	12,191	10,887	9,441	7,852
		(0.6)	(0.1)	0.0	(458.7)	(458.7)	(458.7)	(458.7)	(458.7)

*Source: Company data, CSFB estimates***Companies Mentioned** *(Price as of 03 May 05)*

Bezeq (BEZQ.TA, NIS5.26, NEUTRAL, TP NIS5.50)

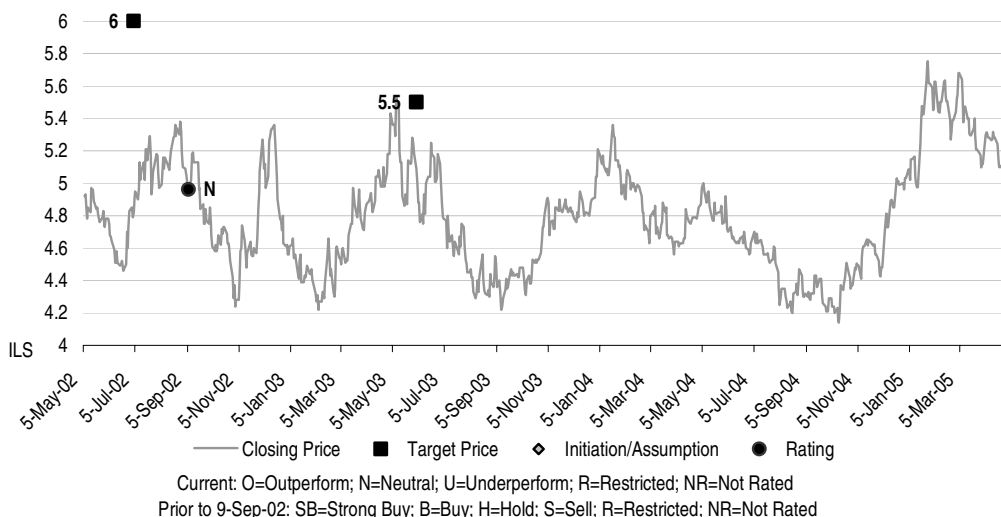
Disclosure Appendix

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for BEZQ.TA



BEZQ.TA Date	Closing Price (ILS)	Target Price (ILS)	Rating	Initiation/Assumption
03-Jul-02	4.82	6		
06-Sep-02	4.96		NEUTRAL	
02-Jun-03	5.09	5.5		

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Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

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Neutral/Hold*	44%	(55% banking clients)
Underperform/Sell*	16%	(43% banking clients)
Restricted	3%	

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See the Companies Mentioned section for full company names.

Price Target: (12 months) for (BEZQ.TA)

Method: DCF, relative valuations

Risks: Economy, privatisation

See the Companies Mentioned section for full company names.

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