Company report

HSBC Global Research

Bezeq

Underpriced, high-yield, quality asset – reiterate Overweight, target ILS8.6 from ILS8.3

- **A high dividend yield (8.6%) supported by cost-cutting effect from headcount reduction and group efficencies**
- **Pelephone's migration to HSPA (from CDMA) will allow >500bp margin recovery in the next three years; network plans are on track and due to launch in early 2009**
- **We have revisited our model and raised our 2008-2009 EPS estimates to ILS0.59 and ILS0.64 and our target price to ILS8.6 from ILS8.3; we reiterate our Overweight rating**

Cheapest in our universe, highest dividend yield

Bezeq is Israel's telecom incumbent and our preferred Israeli telecoms pick. We see several key valuation drivers which are in our view not adequately priced in. The first is the shift by the mobile arm, Pelephone, to an HSPA network from CDMA, which will align it with the leading players. Cost cutting is the second key driver, which will help offset eroding wireline revenues. We believe the market is under-pricing the effect both will have on margins, free cash flow and valuation. Pelephone should be able to improve its EBITDA margin by 560bp in the next three years to 33%. On the cost side, we expect group opex/sales to drop from 66.9% in 2007 to 63.7% in 2012. The improvement in EBITDA will improve dividend yields – we expect 8.6% operational yield for 2008 alone.

Our DCF-based target price of ILS8.6 represents 33% potential total return. Bezeq is trading at 2008e and 2009e EV/EBITDA of 5.2x and 4.9x, a discount to our peer group of 13% and 11%, with an FCF discount of 10% and 18%. We have revisited our model and raise our target price to ILS8.6 from ILS8.3. We reiterate our Overweight rating.

One of the main risks we see is growing competition, with unbundling of the local loop looking inevitable. However, we think this is less of a risk than the market seems to believe. Ministry of Communication reforms should improve visibility for all players while removing significant regulatory constraints on Bezeq. The share overhang story is also making headlines once again, but a conclusion now seems imminent. We expect Gad Zeevi's 17.8% stake in Bezeq to be sold in one form or another soon. This creates a share overhang risk, which we think explains a lot of the stock's recent sluggish performance. However, with this cloud likely soon lifted we see this as an interesting opportunity for investors looking for an underpriced, high-yield quality asset.

Index^	TA-100 INDEX
Index level	1,036
RIC	BEZQ.TA
Bloomberg	BEZQ IT

Source: HSBC

Enterprise value (ILSm)	22,468
Free float (%)	36
Market cap (USDm)	5,239
Market cap (ILSm)	16,881

Source: HSBC

Overweight

HSBC	(ILS)	8.60
Share price	(ILS)	6.49
Potential total return (%)		33.0

Dec	2007a	2008e	2009e
HSBC EPS	0.52	0.59	0.64
HSBC PE	12.6	11.0	10.1
Performance	**1M**	**3M**	**12M**
Absolute (%)	2.8	-5.8	-9.5
Relative^ (%)	-1.4	-6.0	-2.4

Note: (V) = volatile (please see disclosure appendix)

9 June 2008

Avshalom Shimei *
Analyst
HSBC bank Plc.
+972 3 710 1197
avshalomshimei@hsbc.com

Maninag Namana *
Associate
Bangalore

View HSBC Global Research at:
http://www.research.hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to NYSE and/or NASD regulations

Issuer of report: HSBC Bank plc

Financials & valuation

Financial statements

Year to	12/2007a	12/2008e	12/2009e	12/2010e
Profit & loss summary (ILSm)				
Revenue	12,400	12,450	12,714	12,984
EBITDA	4,105	4,329	4,493	4,641
Depreciation & amortisation	-1,769	-1,750	-1,675	-1,614
Operating profit/EBIT	2,337	2,579	2,819	3,027
Net interest	-309	-400	-534	-519
PBT	2,034	2,190	2,295	2,518
HSBC PBT	2,034	2,190	2,295	2,518
Taxation	-672	-635	-597	-629
Net profit	1,362	1,555	1,698	1,888
HSBC net profit	1,362	1,555	1,698	1,888
Cash flow summary (ILSm)				
Cash flow from operations	3,093	3,152	3,326	3,491
Capex	-1,246	-1,771	-1,500	-1,300
Cash flow from investment	349	-1,647	-1,500	-1,300
Dividends	-2,860	-1,418	-1,545	-1,703
Change in net debt	748	14	-290	-498
FCF equity	1,177	1,210	1,826	2,191
Balance sheet summary (ILSm)				
Intangible fixed assets	2,526	2,491	2,523	2,549
Tangible fixed assets	6,064	6,070	5,864	5,524
Current assets	4,716	4,074	3,944	4,073
Cash & others	1,203	467	263	322
Total assets	15,156	14,462	14,157	13,973
Operating liabilities	4,151	4,032	4,069	4,139
Gross debt	6,776	6,054	5,560	5,120
Net debt	5,573	5,587	5,297	4,799
Shareholders funds	4,545	4,704	4,857	5,042
Invested capital	9,768	10,032	9,884	9,595

Ratio, growth and per share analysis

Year to	12/2007a	12/2008e	12/2009e	12/2010e
Y-o-y % change				
Revenue	1.4	0.4	2.1	2.1
EBITDA	19.7	5.5	3.8	3.3
Operating profit	49.3	10.4	9.3	7.4
PBT	64.2	7.7	4.8	9.7
HSBC EPS	81.5	14.2	9.2	11.2
Ratios (%)				
Revenue/IC (x)	1.3	1.3	1.3	1.3
ROIC	16.4	18.5	20.9	23.3
ROE	26.4	33.6	35.5	38.2
ROA	12.0	13.5	14.9	16.4
EBITDA margin	33.1	34.8	35.3	35.7
Operating profit margin	18.8	20.7	22.2	23.3
RoCE	10.5	12.3	13.0	15.3
Net debt/equity	133.6	129.4	118.5	103.1
Net debt/EBITDA (x)	1.4	1.3	1.2	1.0
Per share data (ILS)				
EPS reported (fully diluted)	0.52	0.59	0.64	0.71
HSBC EPS (fully diluted)	0.52	0.59	0.64	0.71
DPS	1.08	0.56	0.61	0.68

Key forecast drivers

Year to	12/2007a	12/2008e	12/2009e	12/2010e
No of ADSL Subscribers('000)	963	999	1,048	1,090
ADSL ARPU	58	60	61	61
Total Access Lines ('000)	2,761	2,656	2,577	2,499
Fixed Line ARPU	84	82	81	81
Mobile ARPU	131	132	137	140
Mobile EBITDA Margin(%)	27.4	30.8	32.1	33.0

DCF analysis

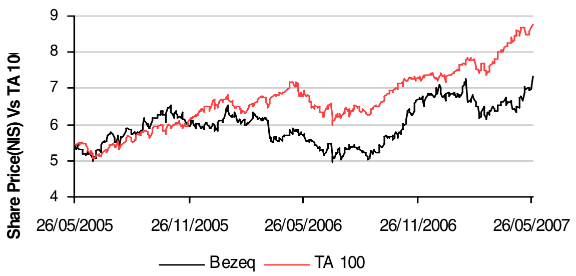
HSBC assumptions		DCF, comprising	
Risk free rate	5.5%	Stage 1 (ILS mn)	9,284
Beta	0.75	Stage 2 (ILS mn)	7,399
Equity risk premium	5.5%	Terminal (ILS mn)	11,819
WACC	9.72%	Total value	28,502

Valuation data

Year to	12/2007a	12/2008e	12/2009e	12/2010e
EV/sales	1.8	1.8	1.7	1.7
EV/EBITDA	5.5	5.2	4.9	4.7
EV/IC	2.3	2.2	2.2	2.3
PE*	12.6	11.0	10.1	9.1
FCF yield (%)	7.0	10.0	12.5	13.0
Dividend yield (%)	17.3	8.6	9.4	10.5

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 01 June 2008

Sensitivity Table: WACC (%) vs LT Growth(%)

		WACC(%)				
LT Growth (%)	8.6	**7.7%**	**8.7%**	**9.7%**	**10.7%**	**11.7%**
	1.0%	10.6	9.7	9.1	8.6	8.2
	0.5%	10.1	9.4	8.8	8.4	8
	0.0%	9.7	9.1	8.6	8.2	7.8
	-0.5%	9.4	8.8	8.4	8	7.7
	-1.0%	9.1	8.6	8.2	7.8	7.5

Source: HSBC Estimates

Investment summary

- Cost control is the name of the game at the group level
- The biggest potential for value appreciation is Pelephone's shift to GSM
- Regulation is key, especially now, offering more opportunity than risk, in our view

Key Drivers

We see three key drivers for Bezeq

- Cost savings at the group level – expect opex/sales to drop from 66.9% in 2007 to 63.7% in 2012e, mainly related to the wireline and wireless (Pelephone) segments
- Pelephone – the leading candidate in the group for material value appreciation in the short to medium term, through its shift to an all-new HSPA (GSM) network
- Regulation – ongoing reform offers several opportunities over Bezeq's current strict regulation, although this is not risk-free

Cost savings – Several of the group's business could realise cost savings at the group level (this is unrelated to revenue sharing, which is harder to assume). Many operational costs are managed separately by each business unit. Centralising more functions cut costs at the group level. For example, each subsidiary operates its own car-leasing fleet, losing economies of scale. And each unit does its own testing of job candidates, with none seeing the results of another unit's tests. Centralising the testing would save on tests and the fees for professional evaluations of the results. It would also provide a wider range of candidates at a lower cost per capita.

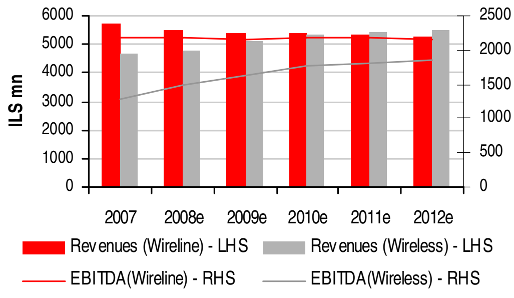
Planned implementation of NGN (next generation network) will make the network more efficient, allow fewer switches to be used and provide better resource utilisation. This should lead to range of cost savings from network maintenance to real-estate assets evacuation (allowing liquidation of assets).

Head count savings: out of the 975 employees planning to leave Bezeq under the agreement with its union dated December 2006, 951 have already left. The retirement process is set to conclude by the end of 2008, but the current retirement run-rate suggests a faster conclusion. We expect headcount cut to push salaries expense down 1.5%/2.1% in 08/09 as a result.

Pelephone as a key valuation driver – the mobile company's new HSPA network will be commercially available early in 2009, following a board decision to invest up to ILS1.0bn. The HSPA network will open up 20%-25% of the market that Pelephone cannot reach today in both business and consumer segments.

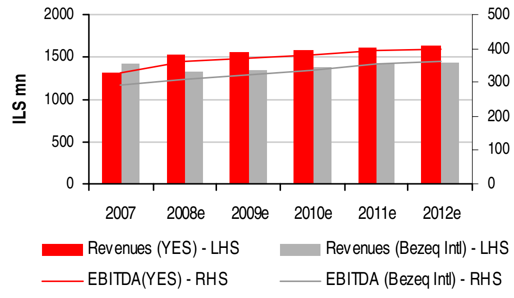
For business customers, the HSPA (GSM compatible) network means subscribers who need

Revenue Vs EBITDA – 2007 -2012e (Wireline & Wireless)



Source: Company Data, HSBC Estimates

Revenue Vs EBITDA – 2007 -2012e (YES & Bezeq Intl)



Source: Company Data, HSBC Estimates

roaming capability will now be able to consider Pelephone's offering, which was not possible with the old CDMA network. We doubt Pelephone will take the bulk of the market share now held by Cellcom and Partner, the largest and second-largest Israeli mobile operators. But we assume it will be able to win business customers, using various pricing strategies. That means it could take some share of the 'non-strategic' customers from peers.

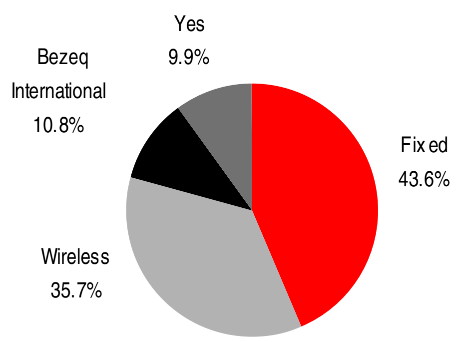
We do not foresee full-throttle competition, since no single player will have a technological or pricing edge. Getting into a full-fledged price war could quickly turn to a lose-lose situation for all the players.

For consumers, the new network means Pelephone can now offer the highly popular Nokia and Sony-Ericsson handsets. These were not available on the old network, keeping many Nokia/Ericsson fans and potential customers away from Pelephone.

The new network will also enable Pelephone to compete for GSM-related roaming revenues. We assume that after an initial learning curve it will take about a third of this market (inbound). The potential EBITDA contribution, in our view, is not much more than ILS150m to ILS200m a year, because roaming tariffs are falling in both Europe and Israel. We assume a roaming market of less than ILS1.0bn inbound and outbound and a 40% to 50% EBITDA margin associated with roaming.

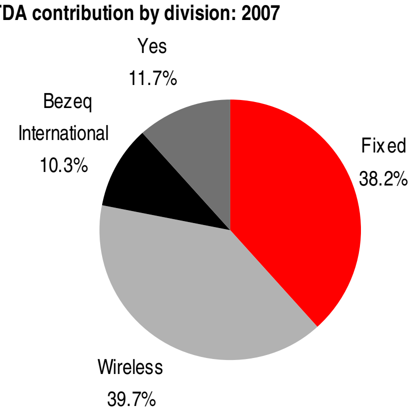
Regulation – Current regulation is a major obstacle to Bezeq's ability to compete and to increasing its earnings. Any change in regulation should help the company, in our view. Bezeq is now in talks with the Ministry of

Revenue Contribution by division: 2007



Source: HSBC, Company Data

EBITDA contribution by division: 2007



Source: HSBC, Company Data

Communications, arguing that an advisory committee's recommendations on regulation should not be adopted as is.

We think the final outcome should be more favourable to Bezeq than the panel's recommendations. But time may not be on the company's side. Israel could hold elections soon, leading to a new minister and administrators at the Ministry of Communications. If the current minister, Ariel Atias, cannot take action this year, the reforms may be delayed again, leading to further uncertainty.

Lack of visibility is bad for Bezeq. It prevents rapid development of its business and better use of its unique resources. It could also be bad for the industry, causing it to stagnate. We believe the current regulatory administration needs to reach conclusions and act upon them this year. If elections occur before the end of the year, we assume reforms will be delayed further.

The work already done on the regulatory side makes us optimistic about the likelihood of telecom reform. Even if an early election is held, we think the main parts of the reforms will be implemented by H1 2009.

Other drivers, developments

YES and Bezeq Intl to improve but less material to valuation

Cost cutting and Pelephone are the big valuation contributors for the foreseeable future. We expect the other two divisions, YES, which provides direct broadcast satellite (DBS) services, and Bezeq International, which provides international calling and internet service, to show both top- and bottom-line improvement. But the gains would not reach of significant scale, on the group level.

Real estate upside potential

Bezeq intends to liquidate some of its real estate assets during 2008. We have not modelled for any capital gains since it is not clear when the property will be sold or how significant the gains, which would be subject to c50% tax, might be. The company does hold several assets in prime locations that, if sold, may result in material gains and upside to our valuation. But to put this in perspective, we believe the maximum net gains would be in the range of several hundreds of millions, ILS. We expect the property to be sold from time to time on an opportunistic basis.

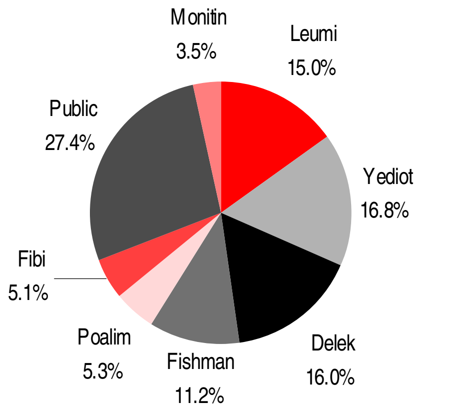
Share overhang

The never-ending story of the sale of businessman Gad Zeevi's 17.8% holding in Bezeq is back again. This time, a conclusion looks imminent, in our view. A court decision or an agreement among the related parties looks likely soon, which should give a green light for the sale, possibly in one block, but probably in several. The expected sale creates a natural share overhang, but we would expect it to be cleared within a few months.

HOT's 15% acquisition: threat or opportunity?

On 4 May 2008, Leumi agreed to sell its 15% stake in HOT to IDB (IDBH, NR) for ILS480m. IDB is the controlling shareholder of Cellcom (CEL, Overweight), the mobile operator and Netvision-Barak (NTSN, NR), a leading ISP in

Shareholding pattern of HOT, as of 26 May 2008



Source: Company data; pending approval for IDB's acquisition of Leumi's 15% stake.

Israel. HOT is the CATV operator in Israel with 937,000 multichannel TV subscribers and a 63% market share. In addition, HOT is the only player on the Israeli market offering triple-play service: telephone, broadband and TV. That makes HOT a direct competitor with Bezeq's telephony and ADSL services and YES's DBS services.

IDB's move to acquire 15% of HOT (via Netvision, pending on regulatory approvals) signals, in our view, IDB's desire to gain control at HOT at a later stage. If it controlled HOT, IDB would be potentially able to form the second-largest communications group in Israel. We believe this would not be all negative for Bezeq and find a few key positives.

Bezeq faces competitive pressures on all fronts. At the same time, regulation often prevents it from defending itself using the same tools, such as triple-play service, tariff flexibility and cooperation among subsidiaries, because of its 'powerful position' in the market – ie it has an effective monopoly in wireline.

The creation of the second-largest communication group, competing with Bezeq on all fronts, would be likely to result in some regulatory relief for Bezeq, in our view, as Bezeq would lose its status as the only big power player in the market.

Bezeq's key challenge today is not competition but regulatory, in our view. Strict limitations placed on it by regulators, mainly the Ministry of Communications, are its largest obstacle to dealing with competition. Creating a second large communications group in Israel would necessitate treating all the large players the same, in our view.

Valuation summary

33% upside, DCF-based

Our DCF-based target price of ILS8.6 represents potential return of 33%. On a relative basis, Bezeq is trading at EV/EBITDA of 5.2x and 4.9x our 2008e and 2009e estimates, representing a discount to our peer group of 13% and 11% for 2008 and 2009 and an FCF discount of 10% and 18% for 2008e and 2009e. Our five-year revenue CAGR is flat at 1.1%, but our EBITDA CAGR is 3% through 2012. We have revisited our model to account for cost savings expected at the group level and Pelephone's expected margin boost once its new network is made commercially available. We raise our target price to ILS8.60 from ILS8.30 and reiterate our Overweight rating.

Our sensitivity analysis shows that a 120 bps increase in EBITDA margin to 37.5% in 2012 on a long-term growth assumption of 0% would take our target price from ILS8.6 to ILS9.3, or 8% upside to our target price. Similarly, a decline in EBITDA margin by 110 bps to 35.2% in 2012, keeping our long-term growth assumption of 0%, reduces our target price by 7% to ILS8.0.

The share price is also affected by Pelephone's performance. A 270bp increase in Pelephone's EBITDA margin to 36.7% in 2012 would raise the target price 5% to ILS9.0 at a 0% long- term growth rate. Similarly, a 280bps decline to 31.2% by 2012 at 0% long-term growth reduces the target price by 5% to ILS8.2.

HSPA – the next big thing

- Wireline's stable top line and lower costs should lead to better margins while keeping its cash cow position
- All-new HSPA mobile network may shake up the industry and push Pelephone away from its lagging position
- Bezeq International and YES upsides exist, but they are limited – the real value lies in group synergies, in our view

Execution time

Cost savings at the group level depend on strict execution. We are encouraged by the group leadership's record. But success in centralising cost functions depends on cooperation from all the segments in the group. Ensuring such cooperation probably means the controlling owners – Apex Saban-Arkin Group – need to become more active, something we suspect is already under way.

We see three main categories of savings, headcount, cost synergies at the group level and network-related. NGN (next-generation network) investment will make the network more efficient, allow fewer switches to be used and provide better resource utilisation. This would free real estate assets that will become redundant as Bezeq implements more and more NGN switches. The new network will also need fewer employees to maintain it, leading to operational efficiencies as resources are reallocated.

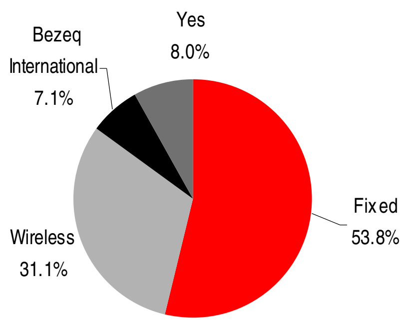
And value to come from…

Wireline division

The wireline division comprises the fixed lines, ADSL and transmission businesses.

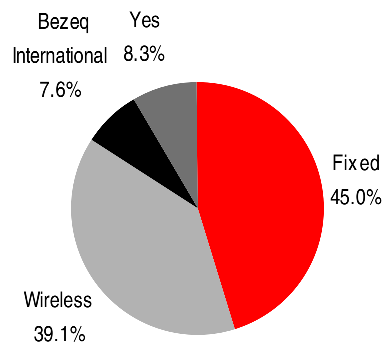
Fixed lines: We estimate fixed-line revenues will see a negative CAGR of 1.5% for the next five

EBITDA contribution by division: 2007



Source: HSBC, Company Data

EBITDA contribution by division: 2012



Source: HSBC, Company Data

HSBC

REVENUES vs EBITDA VS EBITDA MARGIN(%) – 2007 to 2012e

	2007	2008e	2009e	2010e	2011e	2012e	5 yr CAGR
REVENUES							
Fixed Line	5713	5482	5397	5388	5365	5287	-1.5%
Pelephone	4684	4813	5104	5340	5472	5501	3.3%
Bezeq International	1414	1515	1553	1583	1407	1427	0.2%
YES	1304	1326	1352	1380	1613	1624	4.5%
Others	65	70	72	73	74	75	2.9%
Intersegment	-780	-756	-763	-779	-789	-788	0.2%
GROUP REVENUES	12400	12450	12714	12984	13143	13126	1.1%
EBITDA							
Fixed Line	2221	2183	2166	2174	2175	2152	-0.6%
Pelephone	1283	1482	1640	1760	1806	1868	7.8%
Bezeq International	329	362	372	382	355	361	1.9%
YES	291	310	323	334	393	398	6.4%
Intersegment	-19	-8	-8	-9	-9	-9	
GROUP EBITDA	4105	4329	4493	4641	4720	4769	3.0%
EBITDA MARGIN							
Fixed Line	38.9%	39.8%	40.1%	40.3%	40.5%	40.7%	0.9%
Pelephone	27.4%	30.8%	32.1%	33.0%	33.0%	34.0%	4.4%
Bezeq International	23.3%	23.9%	24.0%	24.1%	25.2%	25.3%	1.7%
YES	22.3%	23.4%	23.9%	24.2%	24.4%	24.5%	1.9%
GROUP EBITDA MARGIN (%)	33.1%	34.8%	35.3%	35.7%	35.9%	36.3%	1.9%

Source: HSBC Estimates

years. A decline in tariffs; lower usage and substitution of mobile for fixed-line service will drive the decline.

ADSL: We expect an increase in ADSL revenues to partly offset the decline in fixed-line revenues, though at a lower rate than before. ADSL subscribers grew at a CAGR of 14% from 2004 to 2007. We expect this to fall to a CAGR of 3.5% from 2007 to 2012 as Israel's ADSL market nears saturation, with 75% penetration at the end of 2007. We estimate ADSL revenues will grow at a CAGR of 6.2% from 2007 to 2012, to ILS963mn.

Transmission: We estimate transmission revenues will grow at a CAGR of 6.2% between 2007 and 2012 to 937mn. Regulatory changes – unbundling the local loop – in the next five years will see revenues shift from end-point-related to wholesale, trunk-based revenues, in our view.

At the EBITDA level, we expect the decline to be lower than the top line because of lower operating expenses. The pie chart on page 8 shows the EBITDA contribution of wireline to Bezeq's group is expected to drop from 53.8% in 2007 to 45% in 2012, according to our model.

Naked ADSL

Naked ADSL is an option to buy an internet line from Bezeq without paying a fixed fee for the voice line. The Ministry of Communications has decided Bezeq must offer such an option. We do not believe this will have a material impact. The naked ADSL price has now been set at ILS25 per month, which is close to the current fee paid for a light-usage line, with a limited number of minutes of usage a month. This takes the sting out of the naked ADSL offering since subscribers will still have to pay for Bezeq's ADSL connectivity (varied by Broadband speed) on top of the ILS25 charge. The regulator will revisit his decision after the initial market response to naked ADSL tariffs and services.

Wireless division (Pelephone)

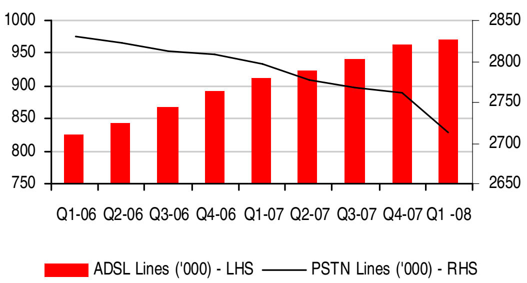
Pelephone's new HSPA network is scheduled to become operational in 2009. We believe this is a key driver to Bezeq's valuation. The new network will be able to provide roaming services, and we assume Pelephone will take a one-third share of the inbound-roaming market two to three years after the network's launch. It will also enable Pelephone to offer subscribers a variety of handset brands. The key here is that Pelephone will be able to improve the quality of its subscriber base by gaining 'unreachable' subscribers, both consumers and businesses. We estimate the customer base will grow at a CAGR of 2% from 2007 to 2012e, to 2.9m. The combination of factors will drive a CAGR (2007-2012e) revenue growth of 3.3%, resulting in revenues of ILS5.5mn for the period to 2012e.

Top-line growth combined with a decline in opex/sales, from 11.4% in 2007 to 9.4% in 2012e, mean an increase in EBITDA margins. We forecast EBITDA margins will jump by 660bps to 34% for our explicit period (2012e) from 27.2% in 2007. As a result; Pelephone's EBITDA contribution to the group is estimated to increase from 31% in 2007 to 39% in 2012, the biggest material contribution at the group level (see chart on page 7).

YES Division

We estimate revenues will grow at a CAGR of 4.5% from 2007 to 2012e, to ILS1.6bn. Revenues will be driven by subscriber growth of 1.2% and slightly higher pricing, which could be seen in the Q1 2008 ARPU of ILS231, compared with ILS218 in Q1 2007. YES had a market share of 37% at the end of 2007, but its growth is being hindered by regulation – a restriction on offering triple-play services.

PSTN and ADSL Line(Q1 2006 –Q1 2008)



Source: HSBC, Company Data

YES has resumed its IPTV/VOD pilot projects using Bezeq's ADSL infrastructure. They were put off last year by the company because of regulatory uncertainty. We believe this is a positive development that may bring Bezeq a step closer to providing an efficient triple-play service, once it's allowed by the regulator.

Competition and regulation have been hectic in the last three years and that has affected YES's performance. However, we expect more-rational competition in the future. EBITDA margins are expected to improve, because of cost cuts rather than top-line performance. We estimate an EBITDA margin of 24.5% in 2012e from 23.3% in 2007. YES's EBITDA contribution to the Bezeq group is unlikely to change; we expect it to remain at c8% in 2012.

Bezeq International Division

We estimate Bezeq's top line will grow at a CAGR of 0.2% over 2007 to 2012e, to ILS1.4 bn. A decline in international calls and a slowing internet market are the primary reasons for the slow growth. We believe Bezeq International can perform better if regulatory relief is provided, such as permission to provide VOD services.

The key upside in our view is EBITDA margin improvement. We expect the company to leverage its well-established infrastructure base to improve its margins. We estimate EBITDA margin will improve from 20.6% in 2007 to 25.3% by 2012e and EBITDA will grow at a CAGR of 4.4% over five years to ILS361m.

Wireline division

Fixed Line

Bezeq's wireline division is losing subscribers. Its fixed-line market share at the end of Q1 2008 stood at 86.9%. That is only 190 bps above the threshold of 85% set by the regulator that allows Bezeq to provide triple-play services to its customers. Management indicated in the Q1 2008 conference call that the threshold of 85% would be reached before the end of Q3 2008. We expect delayed erosion in market share after that development. Our model calculations shows Bezeq's market share at 74.6% by the end of 2012e. This means a steady decline in the top line for the fixed business.

The chart on usage patterns below shows negative q-o-q growth for outgoing minutes. This points to declining fixed lines and substitution of fixed for mobile. We estimate outgoing usage will fall at a five-year CAGR of 6% from 15.2bn minutes in 2007 to 11.3bn minutes in 2012e.

We see the incoming minutes growing sequentially at a positive rate from Q2 2006 to Q1 2008. We expect this trend to continue as competition and fixed-mobile substitution (though eroding) support incoming usage. We estimate the incoming minutes to grow at a five-year CAGR of 8% from 4.4m minutes to 6.5m minutes in 2012e.

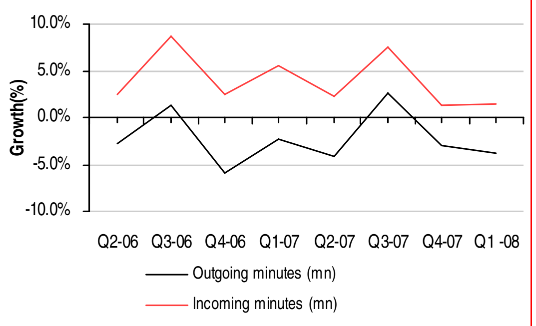
Bezeq tariffs are strictly regulated. On 1 June 2008 the regulated tariffs of its wireline business are to decrease by 2% on average. Since the CPI has risen 3.4% since the last tariff update in June 2007, tariff in real terms is decreasing by c5%. Flat access rates per telephone line will not decrease and will be updated by the 3.4% increase in CPI. That means that the bulk of Bezeq's wireline revenue contribution will continue to shift from usage to fixed access fee.

Tariff policy is supposed to be determined by a committee appointed every five years. The minister has yet to appoint a new committee since the last committee to set tariffs, in 2003.The current tariff is set directly by the Ministry of Communications using the previous committee's guidelines.

ADSL

Bezeq had a 60% market share of the ADSL market at the end of Q1 2008. Bezeq faces competition from HOT, which has the residual market share. Israel's broadband penetration stood at 75% at the end of 2007, so the scope for adding subscribers is limited. We believe Bezeq should be able to maintain its market share given the existing subscriber base, the limited amounted number of competitors – just HOT – and lower market potential. Prices will not decline but capacity will continue to increase, so ARPU for ADSL is likely to remain flat or grow at a slow pace while associated costs continue to decrease.

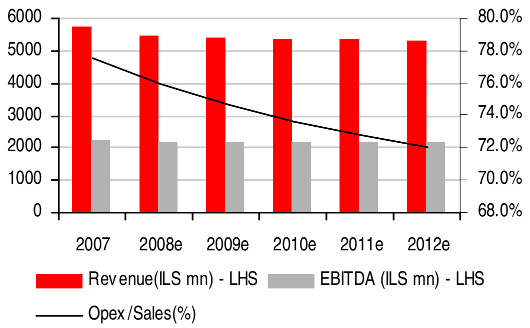
Outgoing vs incoming minutes (m) q-o-q growth(%)



Source: HSBC,Company Data

Over two to three years, Bezeq's investment in NGN should enable a whole new scale of broadband capacity at a much lower cost to Bezeq. That should be used in pushing advanced services. We believe it will not improve top-line growth but will be a major catalyst for safeguarding Bezeq's market share while incurring lower retention costs.

Wireline: Opex/sales vs revenues vs EBITDA (2007 to 2012e)



Source: HSBC Estimates, Company Data

We estimate revenues of wireline business will slide to ILS 5.3bn by 2012e. This means a negative five-year CAGR of 1.5%. However; we expect EBITDA decline will be smaller, a five-year negative CAGR of 0.6%, because of lower salary and general and administrative expenses; which is reflected in lower opex/sales. We foresee opex/sales to decline from 77.6% in 2007 to 72.1% in 2012e. Those factors enable the margins to remain stable.

Q1 2008 in brief

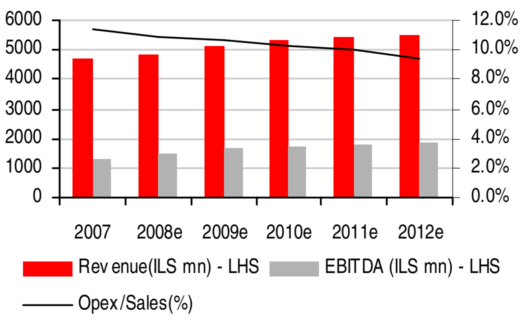
Bezeq's fixed-line business declined by 2.4% y-o-y to ILS1.4bn in Q1 2008. A decline of 3% y-o-y in telephone access lines was partly compensated for by 6.4% y-o-y growth in ADSL lines. EBITDA margins remained steady at 41.6%, compared with 42% in Q1 2007; despite inter-connect tariff cuts on 1 March. Margins were aided by successful implementation of cost cuts, with the initial impact of headcount reduction being felt. During Q1 2008, headcount was reduced from 7,614 (year-end 2007) to 7,458, a net decrease of 154 employees, as employees retired. We note that out of the 975 employees planning to leave Bezeq under to an agreement with its union dated December 2006, 951 have already left. The retirement process is set to conclude by the end of 2008; the fact that by Q1 2008, the vast majority of employees had already left is a positive. So is the fact that Bezeq has already taken most of the expenses related to the retirement plan, allowing for faster cost reduction in the wireline business.

In Q1 2008, salary expenses were up 2% y-o-y but down q-o-q. We think this is a result of NP (Number Portability) implementation and the use of an increased workforce to handle NP churn. General and administrative expenses were down 9% y-o-y, reflecting the cost efficiencies made under the relatively new management team. We think the cut in salary expenses will be reflected in a negative five-year CAGR of 1.5%, till 2012 for salaries. Along with other cost efficiencies, this should help drive margins even with flat top-line growth. That is why we foresee five-year EBITDA CAGR of -0.6%, although we estimate negative five-year revenue CAGR of 7.5% for the wireline business.

Wireless division – Pelephone

Pelephone's new HSPA network is scheduled to come on stream in 2009. The management indicated in the Q1 08 conference call that it would operate a dual network – CDMA and HSPA – and provide differentiated offerings to the subscribers. We believe this network has the potential to not only pull high ARPU subscribers, both consumer and business from competitors but also get higher usage from the existing subscribers, driving overall ARPU.

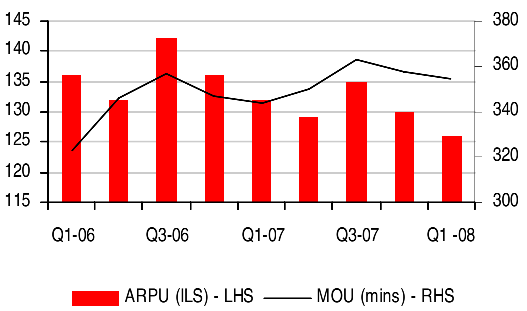
Wireless: Opex/Sales Vs Revs. Vs EBITDA (2007 to 2012e)



Source: HSBC Estimates, Company Data

We have forecast a 4% increase in ARPU and 3.3% increase in overall subscriber base for 2009, raising our revenue forecast by 6% to ILS5.1 bn. We expect revenues to grow at a CAGR 3.3% of 2007 to 2012e. We have also forecast a decline in operating expenses once the network is fully operational. We expect opex/sales to decline from 11.4% in 2007 to 9.4% in 2012, our terminal year. This results in an EBITDA margin of 34% in the terminal year. We forecast EBITDA will grow at a CAGR from 2007 to 2012e of 7.8% to reach ILS1.9bn by 2012e.

WIRELESS: ARPU vs MOU – Q1 -06 to Q1 -08



Source: HSBC, Company Data

Q1 2008 in brief

Pelephone's revenues grew 2.3% y-o-y to ILS1.17 bn while net profit increased 5.8% y-o-y basis to ILS163m in Q1 2008 EBITDA margins shot up by 34% q-o-q to 29.2%.

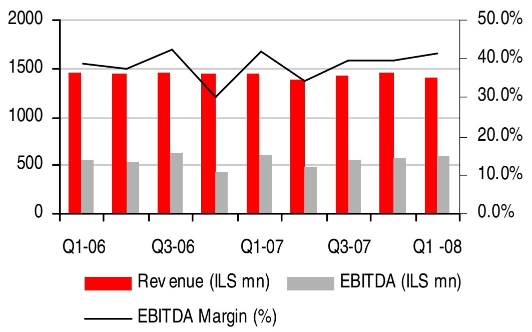
The gain in margins was caused by a decline in sales and marketing expenses related to mobile number portability.

Pelephone remains the market leader in 3G with a subscriber base touching 900,000, accounting for 35% of its total subscriber base. Total subscribers grew 4.7% y-o-y to 2.6 m. Revenues from data, value-added and content services accounted for 15% of cellular-service revenues in the first quarter.

ARPU declined 4.5% while MOU increased 3.2% y-o-y. The decline in ARPU is attributed to price erosion not being completely compensated for by increased usage. More pre-paid subscribers were acquired during Q4 2007 after mobile-number portability was introduced, contributing to lower usage and bringing down revenue per user. Pelephone maintained market share by acquiring low-usage subscribers but lost on ARPU.

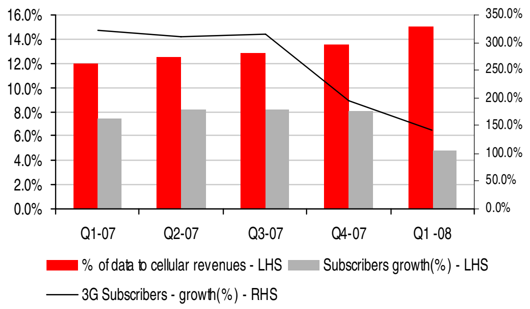
We believe that quality of subscriber base is important in a saturated market. Higher usage would lead to higher ARPU and subsequently higher margins.

WIRELINE: Revenue Vs EBITDA Vs EBITDA Margin



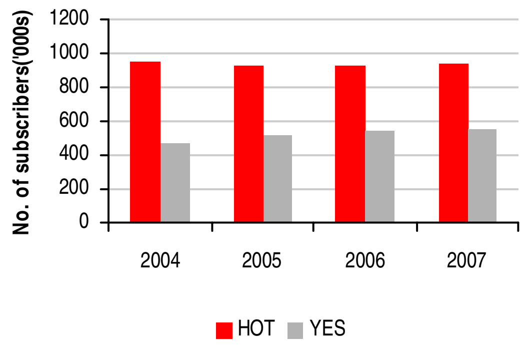
Source: HSBC, Company Data

Subscribers vs 3G subscriber growth vs % of data to cellular revenues



YES

Subscribers – HOT vs YES (2004 to 2007)

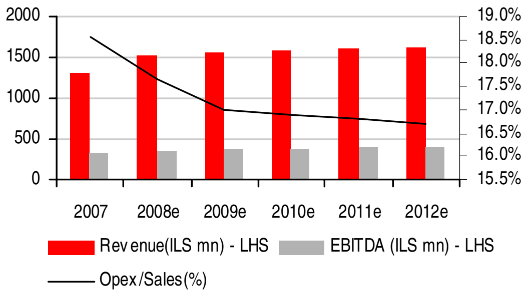


Source: HSBC ,Industry Data

YES hasn't much time to stand on its own with a proven, sustainable business model. As an underdog, YES has been Bezeq's main ammunition when it was firing at the CATV (and hitting pretty well, too). Now CATV has become the underdog and is finally starting to recover, leaving YES with major regulatory chains and lack of ammunition. YES Max, its PVR, is just a rifle. HOT has heavy artillery: 3ple, VOD, and some regulatory protection for its telephony business.

The key issue, in our view, is whether ARPU can go any higher. Can the company generate higher EBITDA margins with the current cost structure? Without help from services like 3ple or VOD, the business seems stuck. It's hard to compete that way. Consolidation of costs into the group would help, and make much sense. The problem is YES's ownership. Bezeq is working to resolve this through a court motion to exercise a c10% option at no charge to Bezeq, which needs to pass an antitrust barrier and shareholders' resistance. Eventually, it may need to buy out the rest and gain full control. This may be the only way to really speed up value creation at YES. The current situation is not good and Bezeq may well be better off without holding 49.8% of YES. YES is probably the best strategic holding it can have for regulatory and competitive reasons. Alternatively, we can see a future scenario where Bezeq maintains only the content platform of YES and uses IPTV to deliver multi-channel TV to homes in the next five years.

YES: opex/sales vs revenues vs EBITDA (2007 to 2012e)



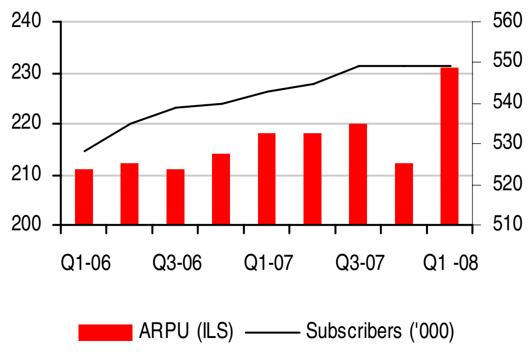
Source: HSBC Estimates, Company Data

We estimate revenues will grow at a CAGR of 4.5% from 2007 to 2012e, to ILS1.6bn. Revenues will be driven by subscriber growth of 1.2% and higher pricing of its packages, evident in Q1 2008 ARPU of ILS231 compared with ILS218 in Q1 2007. YES had a market share of 37% at the end of 2007 and its growth is being curtailed by regulatory restrictions on offering triple-play services and VOD.

Competition and regulation have affected YES's performance. We expect competition to settle down. EBITDA margins are expected to improve on cost cuts rather than top-line performance. We estimate an EBITDA margin of 24.5% in 2012e from 23.3% in 2007.

Q1 2008 in brief

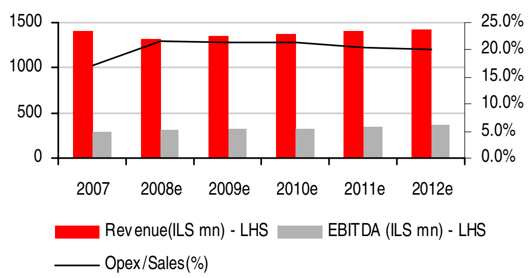
Subscribers vs ARPU (Q1 2006 to Q1 2008)



Source: HSBC, Company Data

Revenues from multi-channel pay TV grew by 7.6% while net loss stood at ILS65m for the quarter. Competition from HOT's telecom service and higher interest costs continue to hurt YES's bottom line. ARPU rose 6% y-o-y to ILS231. This was because of higher prices for its packages across the board, and subscribers paying for more content (i.e. additional channels, premium content). However; subscribers remained stagnant for the third consecutive quarter. Without triple-play service and VOD, its subscriber growth is hampered.

Bezeq Intl: Opex/Sales Vs Revs. Vs EBITDA (2007 to 2012e)



Source: HSBC Estimates, Company Data

Bezeq International

Bezeq International's long distance international calls and internet services business are characterised by high degree of competition. Consolidation among its competitors (the Netvision-Barak and Zahav-Golden lines) has increased price-based competition.

Bezeq International is the only ISP now offering Enterprise services (company switches, call centres etc) as well, following two relative small acquisitions. Yet this business is not material enough, but may bring future upside when regulatory relief will be applied for the group.

ISP business:

Price competition in the ISP business and broadband penetration of 75% in Israel hold down the rate of new additions. Athough Bezeq International remains the market leader (revenues), its market share has dropped to 36% at the end of 2007. Netvision Barak and Zahav-Golden lines share the rest of the market.

International long distance:

A decline in the market for international has affected Bezeq's prospects. It also faces stiff competition from Netvision, Barak, Smile and Xfone. Price competition is severe in this market, since the service is a commodity. Bezeq International's market share also stands at 36% in this sector.

Given the increasing competition in Bezeq International's lines of businesses, we expect revenues to remain flat through the explicit period, growing at a CAGR of 0.2% per annum to ILS1.4bn. We expect the company to leverage on its established infrastructure to improve its margins. We estimate EBITDA margin will improve from 20.6% in 2007 to 25.3% by 2012e and EBITDA will grow at a CAGR (5 years) of 4.4% to ILS361m.

Q1 2008 in brief

Bezeq International's revenue's decreased by 2.8% y-o-y to ILS31m in Q1 2008. The decline was mainly due to weakness in the US dollar and a decline in traffic between foreign operators. That was partly offset by growth in core business areas. EBITDA margin moved up by 100bps y-o-y basis to 23.9% because of lower operating costs.

Valuation and Rating

Old vs New

All in ILS mn except EPS	Old		New	
	2008e	2009e	2008e	2009e
EPS(Fully Diluted)	0.52	0.64	0.59	0.64
Revenues(ILS mn)	12,332	12,554	12,450	12,714

Source: HSBC Estimates

Model assumptions:

Wireline: We expect a negative 1.5% CAGR for the top line of the wireline business to ILS5.3 bn from 2007 to 2012e during the explicit period. We forecast ADSL five-year CAGR in revenue of 6.2 %, which will be offset by a negative 5% five-year CAGR for fixed-line telephony. We expect EBITDA margins to rise steadily from 38.9% in 2007 to 40.7% in 2012e, aided by a reduction in operating expenses. Operating expenses are expected to fall from 77.6% of sales in 2007 to an estimated 72.1% in 2012e.

Pelephone (wireless): We expect top line growth at a CAGR from 2007 to 2012e of 3.3%, to ILS5.5bn. Deployment of the HSPA network by early 2009 and subsequent margin expansion through an increase in higher-ARPU subscribers and a decline in opex are drivers. We expect EBITDA to grow at a CAGR of 7.8% during the explicit period to ILS1.9bn and the margins to rise from 27.4% in 2007 to 34% in 2012e.

YES: We expect the YES top line to grow at a 3.3% five-year CAGR over the period to 2012e, to ILS1.6bn. Top-line growth would be affected by competition and regulatory constraints that prevent it from providing additional services. We expect EBITDA growth to remain subdued and margins to improve from 23.3% in 2007 to 24.5% in 2012e.

Bezeq International: We expect Bezeq International to grow at a five-year CAGR of just 0.2% over the period ending 2012e to ILS1.4bn because of greater competition and a saturating or declining market for its services. We expect EBITDA to grow at a CAGR of 4.4% during the period to ILS361m and margins to rise from 20.6% in 2007 to 25.3% in 2012e. We expect lower operating expenses to provide the improved margins.

We have an Overweight rating on Bezeq and raise our target price from ILS8.3 to ILS8.6, which includes a dividend of ILS0.56 per share for 2008. We arrive at a potential total return of 33% (base price ILS6.49, 1 June 2008).

A dividend payment of ILS679m made in April 2008 has been subtracted from our net debt figures of Q1 2008. Though the cash outflow occurs in Q2 2008, we believe the market has already discounted the dividend payment from the share price. The dividend had a material impact on the share price of ILS0.20 per share.

We have used a DCF model to value Bezeq, applying a discount rate of 9.72% (9.00% previously). The higher discount rate is due to an increase in the risk-free rate for Israel from 4.8% to 5.5%. The equity risk premium of 5.5% and beta of 0.75 remain unchanged. We reduce our long-term growth rate to 0% from 0.5% because of negative growth in the fixed-line business and near-stagnant top line growth at YES and Bezeq International.

Potential catalysts to reach our target would be a jump in earnings and margins of Pelephone after the HSPA network launch; cost cutting expected at the group level and already evident in Q1, despite the number-portability effect, and an investor-oriented management team that provides more visibility for the business.

Sensitivity table:

Table 1: Sensitivity: Group EBITDA vs LT Growth (%)

LT Growth (%)	EBITDA Margin (%) Vs LT Growth (%) EBITDA Margin (%)					
	8.60	34.0%	35.2%	36.3%	37.5%	38.6%
	1.0%	8.2	8.6	9.1	9.5	10
	0.5%	8.0	8.4	8.8	9.3	9.7
	0.0%	7.7	8.2	8.6	9	9.4
	-0.5%	7.5	8	8.4	8.8	9.2
	-1.0%	7.4	7.8	8.2	8.6	9

Source: HSBC Estimates

The sensitivity of the Bezeq group's EBITDA margin to changes in long-term growth are evident from Table 1. A 120bps increase in EBITDA margin to 37.5% and a long-term growth assumption of 0.5% would take our target price from ILS8.6 to ILS9.3, or an 8% upside. Similarly, a decline in EBITDA margin by 110bps to 35.2% at a long-term growth assumption of 0.5% reduces our target price by 7% to ILS8.0.

The table above shows the sensitivity of target price to change in EBITDA margin of Pelephone.

Table 2: Sensitivity: Pelephone EBITDA vs LT Growth (%)

LT Growth(%)		EBITDA Margin of Pelephone (%)				
		31.2%	32.6%	34.0%	35.3%	36.7%
	1.0%	8.6	8.9	9.1	9.3	9.5
	0.5%	8.4	8.6	8.8	9.0	9.3
	0.0%	8.2	8.4	8.6	8.8	9.0
	-0.5%	8.0	8.2	8.4	8.6	8.8
	-1.0%	7.8	8.0	8.2	8.4	8.6

Source: HSBC Estimates

A 270bps increase in EBITDA margin of Pelephone to 36.7% would raise the target price by 5% to ILS9.0 at a 0% long-term growth rate. Similarly, a 280bps decline to 31.2% at 0% long-term growth reduces the target price by 5% to ILS8.2.

At our target price of ILS8.6, we get an EV/EBITDA of 5.2/4.9, which is at a discount of 13% and 11% to our peer group for 2008e/2009e. On a FCF yield basis; Bezeq is at a discount of 10% and 18% for 2008e and 2009e, which indicates the superior FCF generation capacity of the company compared with its peers.

Peer Comparison: Bezeq vs Peers

	RIC Code	Mkt. Price	Target Price	Rating	EV/EBITDA 2008e	EV/EBITDA 2009e	PE 2008e	PE 2009e	FCF Yield(%) 2008e	FCF Yield(%) 2009e
BT Group	BT.L	GBP2.2	GBP2.5	Neutral	4.8	4.6	9.3	9.2	9.7	NA
KPN	KPN.AS	EUR11.7	EUR14.5	Overweight	5.8	5.7	9.9	9.0	9.9	10.3
Belgacom	BCOM.BR	EUR30.3	EUR32	Neutral	5.8	5.8	12.7	13.0	9.6	9.5
Swisscom	SCMN.VX	CHF364.0	CHF480	Overweight	6.7	6.1	9.2	8.7	7.9	9.4
Telesonera	TLSN.ST	SEK54.5	SEK54	Neutral	7.7	7.0	12.4	11.6	4.7	5.8
Telefonica	TEF.MC	EUR18.5	EUR24.4	Overweight	6.1	5.6	11.0	9.6	9.6	10.8
Saudi Telecom	7010.SE	SAR63.8	SAR81	Overweight (V)	7.2	7.0	9.8	9.7	8.7	9.1
Magyar Telekom	MTEL.BU	HUF762.0	HUF840	Underweight	3.8	3.7	8.1	7.7	14.7	14.7
Telecom Egypt	ETEL.CA	EGP17.9	EGP29	Overweight	3.1	2.6	9.7	7.6	18.5	19.9
Wataniya group	NMTC.KW	KWD2.2	KWD3.36	Overweight	7.0	6.2	11.4	11.6	3.3	5.9
Zain group	ZAIN.KW	KWD1.6	KWD1.8	Neutral (V)	7.6	6.2	NA	NA	2.0	6.6
Average					**6.0**	**5.5**	**10.4**	**9.8**	**9.0**	**10.2**
Bezeq	**BEZQ.TA**	**6.49**	**ILS8.6**	**Overweight**	**5.2**	**4.9**	**11.0**	**10.1**	**10.0**	**12.5**
(Disc.)/Prem.-Peer					**-13.0%**	**-10.9%**	**6.3%**	**3.4%**	**-10.4%**	**-18.4%**

Source: HSBC Estimates, Prices as on close of June 1,2008

For our peer group, we use a 50/50 mix of developed and developing-market operators to reflect both Bezeq's mature telecom environment and the growth opportunities available to the group (see peer comparison table at the end of this section). In fact, we believe Bezeq's challenges and opportunities resemble those offered by developed markets, namely regulatory standards, high penetration rates, developed infrastructure, stable FCF generation and dividend yields. Once most 3.5G investments are concluded, in 2009, we expect FCF performance to improve further.

Risks

1. *Execution risk:* Delay in deployment of HSPA network by Pelephone schedule might hamper the revenue accretion in 2009 and affect our margin estimates
2. *Implementation of regulatory recommendations in total:* Implementation of regulatory recommendations as is would promote price-based competition and discourage investment in infrastructure, which could affect margins and might put Bezeq's fixed- line business into a downward spiral
3. *Cost Savings:* We expect cost savings to kick in during the latter half of 2008 as head-count reduction and centralization of cost functions progresses; if the cost-cutting objectives are not met; margins might suffer.

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Avshalom Shimei

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

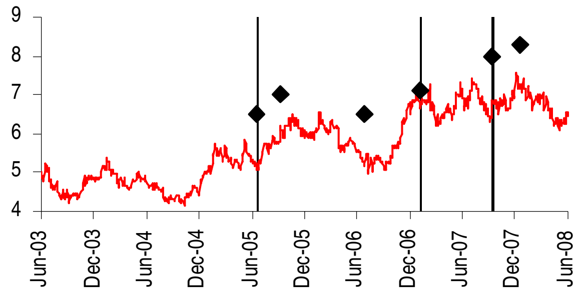
Rating distribution for long-term investment opportunities

As of 05 June 2008, the distribution of all ratings published is as follows:

Overweight (Buy)	53%	(20% of these provided with Investment Banking Services)
Neutral (Hold)	33%	(21% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(13% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Bezeq (BEZQ.TA) Share Price performance ILS Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/R	Overweight	24 June 2005
Overweight	Neutral	12 January 2007
Neutral	Overweight	17 September 2007
Target Price	**Value**	**Date**
Price 1	6.50	24 June 2005
Price 2	7.00	13 September 2005
Price 3	6.50	03 July 2006
Price 4	7.10	12 January 2007
Price 5	8.00	17 September 2007
Price 6	8.30	21 December 2007

Source: HSBC

HSBC & Analyst disclosures

None of the below disclosures applies to any of the stocks featured in this report.

1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 30 April 2008 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 30 April 2008, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 30 April 2008, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
7 As of 30 April 2008, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
8 A covering analyst/s has received compensation from this company in the past 12 months.
9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company.

Analysts are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1 This report is dated as at 09 June 2008.
2 All market data included in this report are dated as at close 01 June 2008, unless otherwise indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Chinese Wall procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 22 August 2007*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiplo.

Issuer of report
HSBC Bank plc
8 Canada Square
London, E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

In the UK this document has been issued and approved by HSBC Bank plc ("HSBC") for the information of its Clients (as defined in the Rules of FSA) and those of its affiliates only. It is not intended for Retail Clients in the UK. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.
HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.
In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore.
In Australia, this publication has been distributed by HSBC Stockbroking (Australia) Pty Limited (ABN 60 007 114 605) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). It makes no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.
This publication has been distributed in Japan by HSBC Securities (Japan) Limited. It may not be further distributed, in whole or in part, for any purpose. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited.
This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice.
Nothing herein excludes or restricts any duty or liability to a customer which HSBC has under the Financial Services and Markets Act 2000 or under the Rules of FSA. A recipient who chooses to deal with any person who is not a representative of HSBC in the UK will not enjoy the protections afforded by the UK regulatory regime. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.
HSBC Bank plc is registered in England No 14259, is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange.

Global Telecoms, Media & Technology Research Team

Global

Stephen Howard
Analyst, Co-Global Sector Head
+44 20 7991 6820 stephen.howard@hsbcib.com

Steve Scruton
Analyst, Co-Global Sector Head
+44 20 7991 6819 steve.scruton@hsbcib.com

Europe

Dominik Klarmann
Analyst
+49 211 910 3720 dominik.klarmann@hsbc.de

Nicolas Cote-Colisson
Analyst
+44 20 7991 6826 nicolas.cote-colisson@hsbcib.com

Luigi Minerva
Analyst
+44 20 7991 6928 luigi.minerva@hsbcib.com

Thorsten Zimmermann
Analyst
+49 211 910 2852 thorsten.zimmermann@ hsbctrinkaus.de

Amit Sachdeva
Analyst
+91 80 3001 3795 amit1sachdeva@hsbc.co.in

Dhiraj Saraf
Analyst
+91 80 3001 3773 dhirajsaraf@hsbc.co.in

Manish Beria
Analyst
+91 80 3001 3796 manishberia@hsbc.co.in

Neelam Agrawal
Analyst
+91 80 3001 3772 n.agrawal@hsbc.co.in

Americas

Richard Dineen
Analyst
+1 212 525 6707 richard.dineen@us.hsbc.com

Europe & North America Credit Research

Madeleine King, CFA
Analyst
+44 20 7991 6789 madeleine.king@hsbcib.com

Keith Kitagawa
Analyst, Technology
+1 212 525 5160 keith.m.kitagawa@us.hsbc.com

Gary Jacobi
Analyst, Telecoms, Media
+1 212 525 3119 gary.p jacobi@us.hsbc.com

Specialist Sales

Annabelle O'Connor
+44 20 7991 5040 annabelle.oconnor@hsbcib.com

Tim Maunder-Taylor
+44 20 7991 5006 tim.maunder-taylor@hsbcib.com

Thomas Koenen
+49 211 910 4402 thomas.koenen@trinkaus.de

Myles McMahon
+852 2822 4676 mylesmacmahon@hsbc.com.hk

Asia

Steven C Pelayo
Analyst
+852 2822 4391 stevenpelayo@hsbc.com.hk

Tse-yong Yao
Analyst
+852 2822 4397 tse-yongyao@hsbc.com.hk

Tucker Grinnan
Analyst
+852 2822 4686 tuckergrinnan@hsbc.com.hk

Walden Shing
Analyst
+852 2996 6751 waldenshing@hsbc.com.hk

Shishir Singh
Analyst
+852 2822 4292 shishirkumarsingh@hsbc.com.hk

Carlos Dimas
Analyst
+813 5203 3814 carlos.dimas@hsbc.co.jp

Neale Anderson
Analyst
+813 5203 3826 neale.anderson@hsbc.co.jp

Scott Foster
Analyst
+813 5203 3821 scott.foster@hsbc.co.jp

Akiko Nishio
Associate
+813 5203 3801 akiko.nishio@hsbc.co.jp

Percy Panthaki
Analyst
+91 22 2268 1240 percypanthaki@hsbc.co.in

Wanli Wang
Analyst
+8862 8725 6020 wanliwang@hsbc.com.tw

Christine Wang
Analyst
+8862 8725 6024 christineccwang@hsbc.com.tw

Leo Tsai
Associate
+8862 8725 6022 leocytsai@hsbc.com.tw

Global Emerging Markets (GEMs)

Hervé Drouet
Analyst
+44 20 7991 6827 herve.drouet@hsbcib.com

Emerging Europe, Middle East & Africa (EMEA)

Kunal Bajaj
Analyst
+971 4507 7200 kunalbajaj@hsbc.com

Vangelis Karanikas
Analyst
+30 210 6965 211 vangelis.karanikas@hpss.hsbc.gr

Karim Khadr
Analyst
+971 4 507 7231 karim.khadr@hsbcib.com

Avshalom Shimei
Analyst
+972 3 710 1197 avshalomshimei@hsbc.com

Bülent Yurdagül
Analyst
+90 212 376 46 12 bulentyurdagul@hsbc.com.tr

Sergey Fedoseev
Analyst
+44 20 7991 6831 sergey.fedoseev@hsbcib.com